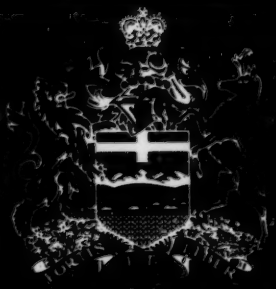
1987 Budget Highlights



Alberta

THE HONOURABLE DICK JOHNSTON
Provincial Treasurer

Budget Overview

The events of the past year have significantly tested the will and determination of the people of Alberta and the government. Agriculture prices were falling as a result of world grain surpluses and our farming sector was experiencing financial difficulties. The worldwide collapse in prices for oil and natural gas, driven by an over-supply of these commodities, was in startling contrast to what had been confidently predicted only one year before. With a strong financial position built over the past decade, the government responded to these unforeseen events. The effect on the 1986-87 fiscal plan will be an annual deficit forecast at $3.3 billion, or about $1,400 for each Albertan.

With per capita spending levels that substantially exceed those in other provinces, Alberta cannot rely on an early rebound in oil prices to solve its fiscal problem. The necessary fiscal adjustments must be made without delay.

The 1987 budget sets in motion a medium-term fiscal strategy to reduce the annual deficit in 1987-88 by more than 40% and to balance the budget by 1990-91.

The funding priorities for 1987-88 are employment, education, health and help for the disadvantaged and those in need.

The budget also includes continued major funding for agriculture and support for selected economic diversification initiatives.

Albertans are asked to pay a larger portion of the cost of their quality people services through higher business and individual taxes. Low income earners will be sheltered from tax increases.

The budget is a fair budget. It equitably shares the burden of deficit reduction.

The budget demonstrates the government's leadership. It sets priorities and takes the difficult, but responsible, actions necessary to position the province for the opportunities that lie ahead.

The future is bright for Alberta. The province's resource base is strong and will provide a foundation for future growth. The private sector is working, with government assistance, to diversify the economy. We have the people who can make it happen.

It is now time for all Albertans to remember the spirit on which our province was built and to join together with new ideas and renewed determination to build a better future for all.

Alberta's Fiscal Flexibility

Alberta has built up its financial strength over the last decade. This financial strength will allow the province to make the required adjustments, while retaining a very favourable fiscal environment relative to any province in Canada.

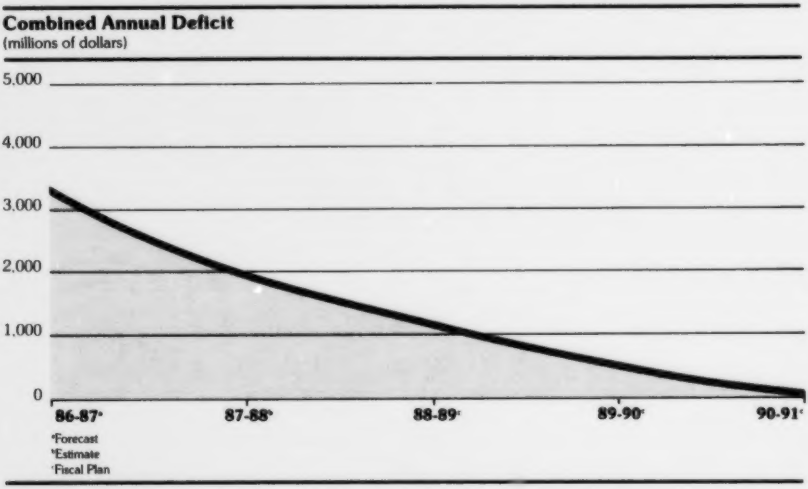
- Alberta entered 1986-87 virtually free of debt.
- The Heritage Fund has nearly $13 billion in financial assets and the stream of investment income it earns pays for 12% of expenditure.
- Alberta has in place an extensive, high quality infrastructure of health facilities, educational institutions, transportation systems, communication networks, recreational facilities and utilities.
- Alberta ends 1986-87 with no fuel tax, no sales tax, no payroll tax and no capital tax, as well as the lowest personal and corporate income taxes and, consequently, substantial unused fiscal capacity.

Fiscal Strategy to 1990-91

Although the $3.3 billion deficit in 1986-87 was appropriate in the short term, high annual deficits cannot be sustained.

- The government's objective is to balance the budget by 1990-91.
- The combined deficit will be reduced in 1987-88 by more than 40% to $1.9 billion.
- Early and decisive action to reduce the deficit is necessary to prevent an explosion in the size of provincial debt. Until the deficit is eliminated, the province will use its good credit standing to borrow and ease the process of adjustment. Debt servicing costs will be kept below 10% of revenue.
- The 15% transfer of resource revenue to the Heritage Fund will be suspended. The Heritage Fund will continue to work for Albertans. The investment income is used to support people programs and the asset base makes it possible for Alberta to borrow at attractive rates.
- Combined expenditure will be held at under $10.6 billion in 1987-88. This represents a saving of over $1 billion compared to what expenditure would have been assuming no policy changes and after allowing for inflation.

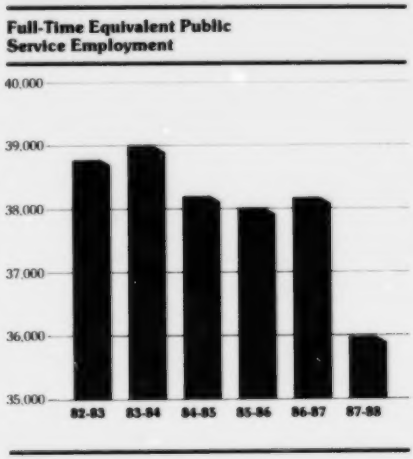
- Taxes and fees will be increased in 1987-88 generating close to one billion dollars in incremental revenue. Albertans will be asked to pay directly for a greater portion of the services they receive. Nonetheless, Alberta will maintain the lowest taxes in Canada.
- The target 1988-89 deficit for planning purposes is approximately $1 billion. As part of the medium-term strategy, expenditure will be downsized toward per capita spending levels in other provinces.



More Efficient Government

The budget for 1987-88 reflects an ongoing commitment to smaller, more efficient government.

- Departmental full-time equivalent employment will be reduced by almost 6% in 1987-88.
- Spending for travel and hosting will be reduced by 17% from 1986-87 budgeted levels.



Employment Support

The government is deeply concerned about unemployment in the province. It understands the sense of frustration and hardship that unemployment brings.

- $143.5 million will be provided for the new Labour Market Strategy. The main programming thrust will be job creation and retention through wage subsidy programs. $76 million will be provided for these initiatives, an increase of 52%. The Youth Employment and Training Program and the Summer Temporary Employment Program will receive $40 million.
- A major objective will be to encourage the private and public sectors to hire social assistance recipients and those who have exhausted their eligibility for unemployment insurance.
- Local governments will receive $22.5 million for the Alberta Municipal Partnership in Local Employment Program.
- Spending will continue on needed capital facilities which will assist employment. The province's overall capital spending will reach $2.4 billion.
- The government's massive ongoing support for the vital energy and agriculture industries is further assisting employment.

Quality Education and Health Services

In recognition of the government's priorities, the reduction in basic operating grants to educational institutions, active treatment hospitals and municipalities will be limited to only 3%. Expenditure in program areas other than social services, education and health will decline, on average, by 16%.

The government has always assigned priority status to education. Demonstrating this commitment, selective spending increases are planned.

- The new Alberta School Board Partnership in Local Employment Program will pass on to school boards, over the next eight years, $9.5 million in interest cost savings through debt refinancing.
- Almost $33 million in funding will be budgeted to provide for enrollment increases, debt retirement and teachers' pensions.
- Funding to cushion those school jurisdictions with low fiscal capacities will be increased by nearly 12% to $54.5 million.
- Special funding of $2.6 million will be reallocated to reflect the distribution of severely handicapped students.
- Nearly $11 million in additional support will be provided to post-secondary institutions for new programs and the operating costs of new facilities.
- Alberta's student financial assistance will remain the best in Canada.
- Spending on education is budgeted at $2.4 billion. It constitutes 23% of budgetary expenditure, up from the comparable share in 1986-87. In addition, $45 million will be provided through the Capital Fund for construction of post-secondary education facilities. Alberta provides the highest education funding per capita.

Albertans benefit from health care services and facilities that are second to none.

- Total financial support for hospitals and nursing homes is budgeted to increase in 1987-88.
- The Millwoods Grey Nuns Hospital in Edmonton and the Peter Lougheed Hospital in Calgary are scheduled to open in April 1988, just a few months later than originally planned.
- In total the budget for health is $2.6 billion. This represents 25% of budgetary expenditure, a larger share than the comparable figure in 1986-87. In addition, $235 million will be provided for health through the Capital Fund and $14 million through the Heritage Fund. Alberta will continue to provide the highest health care funding per capita.

Help For Those In Need

The government will maintain its commitment to those less fortunate Albertans who require special assistance.

- Overall funding for the Social Allowance Program will increase by $175 million to $638 million. This includes increased benefit rates for single parent families and selected reductions for the single employables group. Additional staff will ensure prompt assistance.
- Funding for the Assured Income for the Severely Handicapped Program will increase 20% to $126 million. Benefit rates will be maintained at current levels.
- Funding for Handicapped Children Services will increase by 10% to $4.9 million.
- The Community Housing Program, which assists low income families, senior citizens and handicapped Albertans, will be increased by nearly 20% to over $21 million.

Senior Citizens

Alberta's programs for senior citizens are unequalled in Canada.

- Funding will be increased by 24% for dental and optical benefits and special medical equipment and supplies. These benefits, as well as basic health and Blue Cross coverage, will continue to be provided premium free.
- Funding for senior citizens' lodges will increase 12% to nearly $23 million to ensure that adequate housing is provided for lower income seniors.
- Programs and services for the elderly in nursing homes and auxiliary hospitals will be improved and expanded.
- A new program is being introduced to assist private and voluntary nursing homes with capital improvements.

Agriculture

The government's commitment to agriculture is steadfast.

- Farmers will continue to receive a 14 cent per litre advantage on the price of fuel at a cost of $97 million in expenditure and $40 million in revenue foregone.
- The Farm Fertilizer Price Protection Plan and the special Crop Insurance Coverage Restoration Program have been extended.
- Ranchers will receive over $47 million in funding from the Alberta Crow Benefit Offset Program.
- Alberta's farmers and ranchers will continue to benefit from the innovative, $2 billion Alberta Farm Credit Stability Program. Approximately 13,000 producers have already received approval for their loans and 4,000 more are expected to be approved.
- The provincial share of the national tripartite stabilization program for red meat is budgeted at over $15 million.
- Funding is allocated for initial operation of the Agricultural Research Institute.
- The Heritage Fund will provide $70 million for irrigation programs and over $18 million in support of the individual telephone line service program for rural Albertans.
- Overall, nearly one-half billion dollars is targeted for agriculture.

Economic Development

As part of an overall commitment to job creation, the government will continue to encourage diversification of Alberta's economic base.

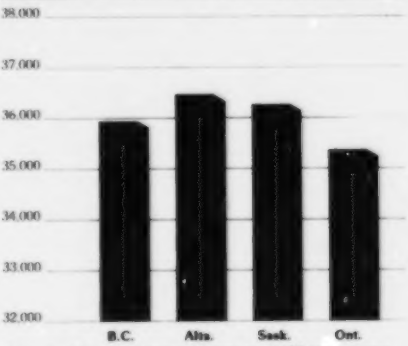
- Small businesses play a key role in the government's diversification strategy. Approximately 11,000 small businesses have received approval under the $1 billion Small Business Term Assistance Plan.
- Small business will benefit from continued low tax rates.
- To provide better assistance to Alberta small businesses and the government's diversification efforts, the Alberta Opportunity Company will broaden its range of financing options. $15 million in creative financing will be made available.
- A special allocation of $3 million will be made for the development of initiatives in tourism, agriculture, advanced technology, manufacturing and forestry sectors.
- The Heritage Fund will make $90 million available as part of the government's $120 million loan commitment to support the development of a pulp mill in Whitecourt.

Taxation, Fees and Premiums

Albertans are being asked to pay more through taxes so that quality education, health and social programming can be maintained. In considering tax increases, three guidelines have been adopted:

- Alberta's tax load will remain among the lowest of any province.
- The burden of tax increases will be shared between businesses and individuals.
- Low income groups will be protected.

Comparison of Take Home Pay After Provincial Taxes
(for a family of four with a gross income of $40,000)



Income net of provincial personal income tax, health care insurance premiums, sales tax, tobacco tax and fuel tax. Other provinces as of March 2, 1987.

Tax, Fee and Premium Changes, 1987-88

	New Rate	Effective Date
Personal Income Tax		January 1, 1987
General rate	46.5%	
Flat rate tax	1%	
High income surtax	8%	
Corporate Income Tax		April 1, 1987
Large corporations	15%	
Large m&p corporations	9%	
Insurance Corporations Tax	3%	April 1, 1987
Fuel Tax	5c/litre	June 1, 1987
Hotel Room Tax	5%	June 1, 1987
Tobacco Tax	4c/cigarette	March 21, 1987
Motor Vehicle Registration	$41/passenger vehicle	May 1, 1987
Operators' Licences	$30/5 years	May 1, 1987
Health Care Insurance Premiums		July 1, 1987
Single	$18/month	
Family	$36/month	

Note: Alberta Liquor Control Board mark-ups will be increased and miscellaneous fees will move toward cost recovery.

Major Provincial Tax Rates[a]

	Personal Income Tax			Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Care Premiums		Corporate Income Tax		Capital Tax	Payroll Tax	Insurance Premiums Tax[d]
	Basic Rate	High Income Surtax	Flat Rate Tax				Individual	Family	Small Business Rate[b]	General Rate[c]			
	(%)	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($)	($)	(%)	(%)	(%)	(%)	(%)
British Columbia	47.5	10.0	—	7	6.4	.97	216	456	8	15	0.2	—	2/3
Alberta	46.5	8.0	1.0	—	5.0	1.00	216	432	0/5	9/15	—	—	2/3
Saskatchewan	50.0	12.0	1.0	5	—	1.02	—	—	0/10	17	0.5	—	2/3
Manitoba	54.0	20.0	2.0	7	8.9	1.16	—	—	10	17	0.3	2.25	2/3
Ontario	50.0	3.0	—	7	8.30	.71	357	714	0/10	14.5/15.5	0.3	—	2/3
Quebec	70-85	—	—	9	13.6	1.13	—	—	0/3.22	5.9/13.9	0.48	3.22	2/3
New Brunswick	58.0	—	—	11	7.7	1.03	—	—	5/9	15	—	—	2/3
Prince Edward Island	55.0	—	—	10	9.0	.88	—	—	10	15	—	—	2
Nova Scotia	56.5	—	—	10	8.9	.88	—	—	0/10	15	0	—	2/3
Newfoundland	60.0	—	—	12	9.8	1.19	—	—	10	16	0	—	3

[a] 1987 rates as known March 17, 1987.

[b] The 0% rate applies to new start-up small businesses except in Alberta where it applies to manufacturing and processing income. Saskatchewan's 0% rate applies to both. New Brunswick's 5% rate applies to small businesses with income of $100,000 or less.

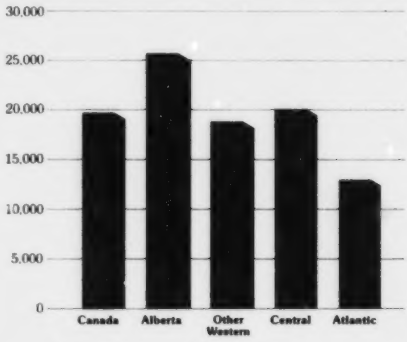
[c] In Alberta, the lower rate applies to manufacturing and processing income. In Ontario, the lower rate extends to all primary industries. In Quebec, the lower rate applies to all active business income.

[d] The lower rate applies to premiums for life, sickness and accident insurance.

Economic Outlook

- Despite the sharp decline in our major commodity prices, Alberta's economic output, on a per capita basis, is still expected to exceed the Canadian average by about 30% in 1986.
- The oil and gas sector has largely absorbed the major direct impacts of lower prices. The indirect effects have yet to work their way fully through the economy and will continue to exert a drag on growth in 1987.

Gross Domestic Product, 1986*
(dollars per capita)



*Source: The Conference Board of Canada

- Renewed oil and gas industry investment is expected in the third quarter, accelerating in the fourth quarter with the start of the winter drilling season.
- A decline in grain prices is expected, but about $700 million of cash support from the provincial and federal governments will assist Alberta farmers.
- The service sector will continue to show resilience although probably less so than in 1986.
- In spite of substantial direct and indirect government support for jobs and job creation, the labour market is expected to weaken.

Medium Term Opportunities

- Alberta's oil and gas sector will provide a strong base for promising economic development.
- Our agriculture sector is efficient and diversified.
- Continued efforts to broaden the economic base through tourism, forestry and high technology are working and will help to position Alberta for the future.
- The economic and social infrastructure is in place to enable Alberta to capitalize on its strengths. The province has the people with the skills and drive to make it happen.

Financial Highlights, 1987-88

- Combined revenue is estimated at $8.6 billion.
- Combined program expenditure is estimated at $10.2 billion which, together with debt servicing costs of $400 million, brings combined expenditure to $10.6 billion. This represents a decline of 4.4% from the 1986-87 expenditure estimate.
- A combined annual deficit of $1.9 billion is estimated. This represents more than a 40% decline over the 1986-87 forecast deficit and sets in motion a medium-term fiscal strategy to balance the budget by 1990-91.
- The General Revenue Fund, or main operating account of the province, is estimated to have a deficit of $1.8 billion, down sharply from the 1986-87 forecast of $3.3 billion.

Summary Financial Plan
(millions of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Combined Revenue				
Budgetary				
General	7,327	5,785	6,848	8,206
Heritage Fund Investment Income	1,300	1,445	1,460	1,667
Heritage Fund Resource Revenue (15%)	—	244	405	666
	8,627	7,474	8,713	10,539
Combined Expenditure				
Budgetary				
Program	10,016	10,368	10,604	10,295
Debt Servicing Cost	400	185	203	36
Heritage Fund Capital Projects	140	223	236	240
	10,556	10,776	11,043	10,571
Combined Deficit	1,929	3,302	2,330	32

BUDGET ADDRESS 1987

Alberta

THE HONOURABLE DICK JOHNSTON
Provincial Treasurer

87-02317/

BUDGET ADDRESS 1987

Presented by the Honourable Dick Johnston
Provincial Treasurer
in the Legislative Assembly of Alberta
on Friday, March 20, 1987

Table of Contents

	Page
Introduction	5
Economic Situation and Outlook	5
Fiscal Situation and Strategy	11
Heritage Fund Policy	14
Expenditure Plan	15
Taxation and Fee Changes	20
Revenue Outlook	22
Financial Plan	23
Conclusion	25

Appendix A – General Revenue Fund	27
Appendix B – Alberta Heritage Savings Trust Fund	39
Appendix C – Other Major Regulated Funds	47
Appendix D – Provincial Crown Corporation Capital Budgets	55
Appendix E – Fiscal Trends and Medium-Term Strategy	67
Appendix F – Details of Tax, Fee and Premium Changes	81

1987 Budget Speech

The events of the past year have significantly tested the will and determination of the people of Alberta and this government. When I presented the 1986 Budget Update to the Legislative Assembly last June, we faced uncertainty in the export markets for all our basic commodities. Agriculture prices were falling as a result of world grain surpluses and our farming sector was experiencing financial difficulties. As well, the world was abruptly reminded that the petroleum industry is cyclical and volatile. The worldwide collapse in prices for oil and natural gas, driven by an over-supply of these commodities, was in startling contrast to what had been confidently predicted only one year before.

The impact on the Alberta economy has been extreme and difficult. However, with our strong financial position built over the past decade, we have been able to respond to these unforeseen events despite a sharp reduction in provincial revenue. The effect on our 1986-87 fiscal plan will be an annual deficit forecast at $3.3 billion, or about $1,400 for each Albertan.

With per capita spending levels that exceed those in other provinces by a substantial margin, and with reduced oil and natural gas revenue, we must make the necessary fiscal corrections without delay. Therefore, this budget proposes tough measures to address the new fiscal challenges facing Alberta.

This government is determined not to allow the accumulated provincial deficit to grow unchecked. Our 1987 budget is part of a medium-term fiscal plan which will see the annual deficit shrink by over 40% or $1.4 billion in 1987-88 and move to a balanced budget by 1990-91.

This government pledges to protect those Albertans in need. Our budget meets this commitment.

This government is dedicated to maintaining quality services. Our budget asks Albertans to pay for a larger portion of the costs of these services.

This government is committed to fairness. Our budget equitably shares the burden of deficit reduction.

This budget demonstrates the government's ability to manage in difficult times, to set a course which will lead Alberta through this period, and to set priorities and initiate responsible actions that will position our province for the opportunities that lie ahead.

Economic Situation and Outlook

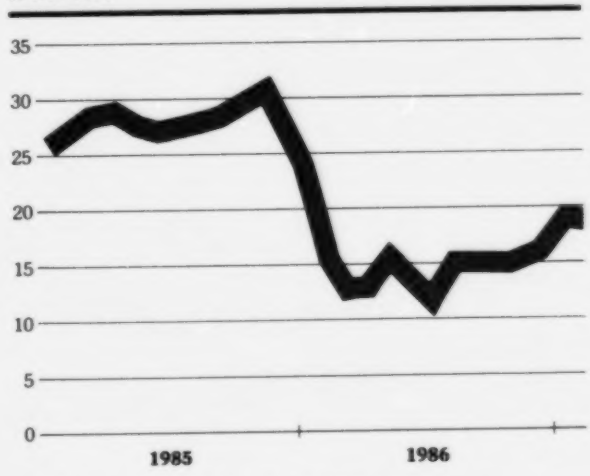
Before discussing our fiscal strategy for 1987-88, I would like to review the economic environment. Developments and trends beyond our borders and beyond our control greatly influence Alberta's economic performance and fiscal plan.

International Economy

Without question, the key international development in 1986 from Alberta's perspective was the drop in world oil prices. When OPEC, led by Saudi Arabia, moved to increase production, oil prices fell by more than one-half. Uncertainty plagued world oil markets for most of the year.

At their December 1986 meeting, OPEC members agreed to reduce oil production to support

Crude Oil Prices*
($U.S./bbl)



*West Texas Intermediate spot price at Cushing, Oklahoma.

prices. As a result, prices should be more stable in 1987, but fluctuations – particularly in the spring – are likely. Nonetheless, I expect world oil prices to firm around the OPEC target of $18 U.S. per barrel by year end.

The other key development in world commodity markets in 1986 was the fall in grain prices. The world oversupply of grain, aggravated by the struggle between the United States and the European Economic Community over subsidies, drove grain prices down. As long as grain stocks are high and the Americans and Europeans continue this battle, prices will remain weak.

Developments in the United States, our major international market, are also of particular significance. Real economic activity grew by about 2.5% last year and should post a similar increase in 1987. Although the American trade deficit should improve in 1987, protectionism remains a concern and a sound reason to support the current bilateral trade talks.

Canadian Economy

The Canadian economy expanded by about 3% in 1986. Weak commodity prices had a negative impact on key sectors and Canada's trade account deteriorated sharply. Business investment declined in real terms due to the fall in energy investment.

Canadian economic growth is expected to slow in 1987 to around 2.5% in real terms. The weak link in the national economy will continue to be business investment, held back by uncertainty in the energy sector.

There has been positive news on interest rates. A strong dollar has allowed the Bank of Canada to narrow interest rate differentials with the United States. Lower Canadian interest rates in 1987 should boost economic growth and help capital intensive economies like Alberta's.

Within Canada, economic performance is expected to be led again this year by Ontario, Quebec and Manitoba. In contrast, the western and Atlantic regions will see growth at or below the national average. This unbalanced growth is a major concern. When Alberta was growing at record rates, we actively supported balanced regional growth. The federal government could do much to correct regional disparities by encouraging energy investment in both Atlantic Canada and the West.

Alberta Economy

In 1986 Alberta felt the brunt of lower world commodity prices through a sharp reversal in our trade balance. While the value of imports continued to rise, the value of exports fell dramatically. Export volumes were reasonably firm but the prices of oil, natural gas and grain dropped sharply. The net effect was a marked decline in export earnings which hurt activity and employment in our core industries.

Oil and Gas

After record setting activity during the first quarter of 1986, oil and gas drilling fell in the second quarter. Reacting to the uncertainty over oil prices and reduced cash flow, oil companies scaled back their exploration and development expenditure.

The Alberta government moved quickly. In the spring, we enhanced the Royalty Tax Credit and introduced the Exploratory and Development Drilling Assistance Programs, the Well Servicing Assistance Program and the Geophysical Assistance Program. These temporary measures, valued at $600 million, were designed to help the industry through a highly uncertain period by bolstering producer cash flow, encouraging drilling and maintaining jobs.

When world oil prices remained low through the fall, we adjusted the fiscal regime governing exploration, development and production. This massive one billion dollar initiative reduced royalty rates on crude oil and natural gas, provided up to a five-year royalty holiday on new oil wells and extended the enriched Royalty Tax Credit which particularly assists small producers. The adjustments will yield ongoing benefits to Alberta's exploration and production companies.

Alberta also took prompt action to protect our non-conventional oil industry. We entered into an interest free loan agreement of $85 million with Syncrude to maintain the momentum on the expansion project. In addition, the Alberta, federal and Saskatchewan governments committed a total of $63 million to continue engineering work on Husky Oil Ltd.'s heavy oil upgrader near Lloydminster.

The Alberta government has done its part to respond to the oil price crisis. Last June I called on the federal government to eliminate the discriminatory Petroleum and Gas Revenue Tax. The subsequent removal of this tax, although welcomed, should not be considered as a special favour for the oil industry. All that Alberta wants is fair treatment from the federal government. Albertans find it hard to reconcile the notion that when oil prices were high, energy policy was a national concern; but when energy prices drop sharply, energy policy becomes a provincial matter.

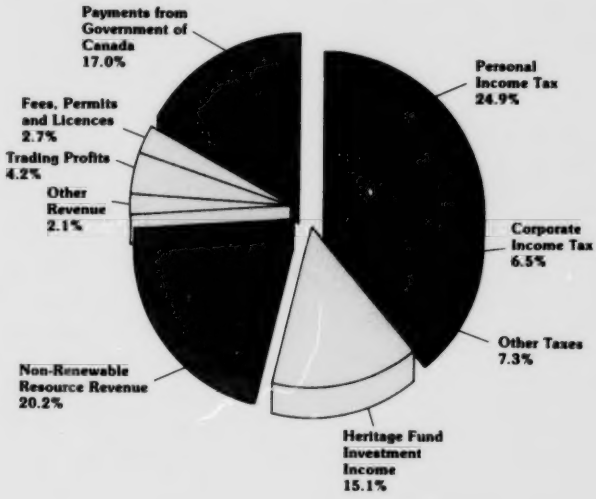
The oil industry is a strategic national industry, vital to Canada's long-term energy security and economic prosperity. Reduced gasoline and heating bills are distracting Canadians from the real problem of steadily rising foreign imports. In 1985 Canada was a net exporter of light crude. This year we likely will import one hundred thousand barrels per day more than we export as the productive capacity of large Alberta pools discovered before 1974 begins a steep decline.

Without investment in new sources of crude oil supply, Canada will be importing one-quarter of its total light oil needs in four years. This dependence could grow to 50% by the turn of the century. People in Atlantic Canada, Quebec and Ontario – two out of every three Canadians – could be reliant on foreign suppliers for their crude oil. Even relatively minor supply disruptions in the Middle East would then seriously harm Canada's economy.

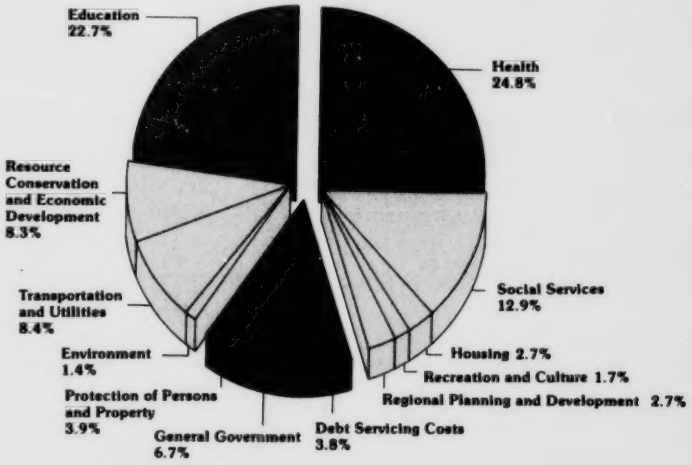
By 1990, OPEC is expected to be producing at 80% of its capacity. The cartel has been able to set world oil prices when this level of capacity utilization has prevailed in the past. Without new domestic supplies, Canada's international balance of payments would be at risk and future economic growth would be jeopardized.

The price fall has seriously hurt the energy industry. It is not in a position to finance the exploration that must be done today to yield the production Canada needs tomorrow. Immediate federal assistance is required to restore investment in exploration and oil sands development and to retain the human skills that Canada will surely need in the 1990's. This assistance need not be inconsistent with federal tax reform.

Combined Revenue
By Major Source, 1987-88 Estimate


Payments from Government of Canada 17.0%
Personal Income Tax 24.9%
Fees, Permits and Licences 2.7%
Trading Profits 4.2%
Other Revenue 2.1%
Corporate Income Tax 6.5%
Other Taxes 7.3%
Non-Renewable Resource Revenue 20.2%
Heritage Fund Investment Income 15.1%

Combined Expenditure
By Major Function, 1987-88 Estimate

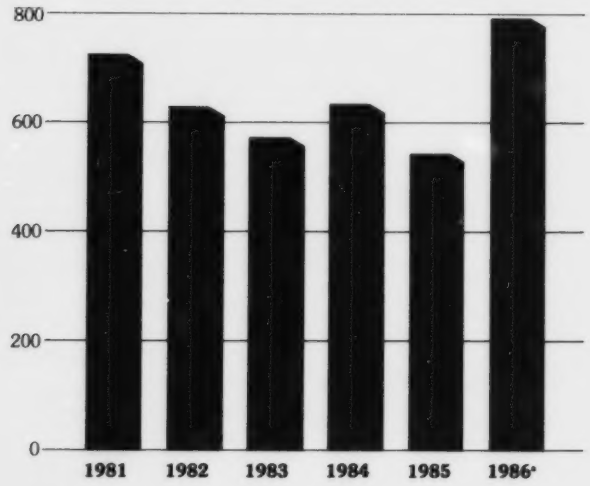


Agriculture

Last year Alberta farmers enjoyed a record harvest, well above the previous high. While yields were up, quality was reduced due to bad weather during the harvest. This aggravated an already weak price situation brought on by excess international supplies. Higher crop insurance and stabilization payments limited the decline in crop receipts to 13%.

Alberta's agricultural base has a good balance between its crop and livestock sectors. The livestock sector strengthened in 1986. Hog receipts, up about 11%, led the way. Cattle receipts rose 7% and dairy receipts increased by 5%. The Red Meat Stabilization and Livestock Assistance Programs provided $143 million to Alberta producers in 1986 and contributed significantly to the strength in the livestock sector.

Realized Net Farm Income, Alberta
(millions of dollars)



*Forecast

Largely due to government initiatives, farm and ranch operating costs declined by about $260 million in 1986, softening the blow of falling grain prices. Fuel expenses dropped by over 50% due to the Alberta government's doubling of the farm fuel distribution allowance, the increase in the federal rebate and declining oil prices. Fertilizer expenses fell by over 15% thanks in part to the Alberta Farm Fertilizer Price Protection Plan. The innovative Alberta Farm Credit Stability Program was a key factor in lowering interest costs. Feed expenses dropped by about one-third to their lowest levels since 1978, assisted substantially by the $78 million provided by the Alberta Feed Grain Market Adjustment Program.

Realized net income of Alberta's farmers and ranchers increased by over 40% in 1986. Clearly this government put its commitment into action by providing stabilization and insurance initiatives and by reducing major input costs.

Service Sector

The service sector cushioned the Alberta economy from price shocks in international commodity markets. Many may not realize that Alberta no longer has a two dimensional economy. Since 1971 service sector output has grown eight-fold and created 407,000 jobs. Today it accounts for the largest share, by far, of the economy's output and employment.

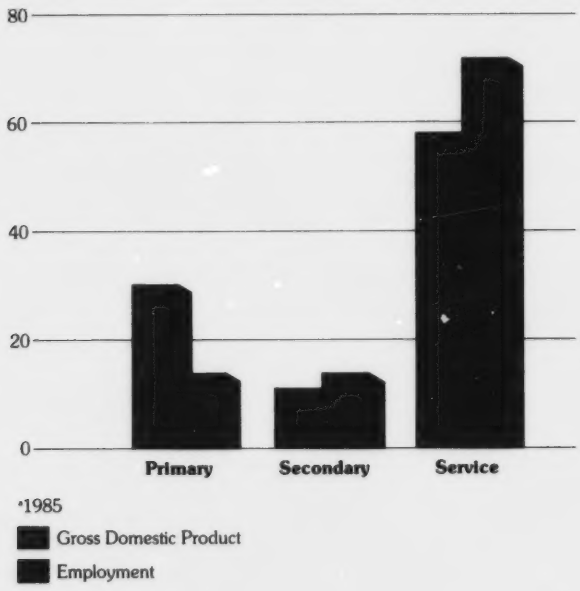
Activity in the service sector is mainly influenced by demographics, income levels and government expenditure – factors which change relatively slowly. This accounts for its resilience.

One of the service sector's key components is retail trade. In 1986 consumers continued to show confidence in the Alberta economy. Retail sales were up 5% compared to 1985.

Complementing the retail sector is Alberta's growing reputation as a major tourist destination. This government's objective to broaden Alberta's economic base through tourism is paying dividends in the form of more jobs.

Another major factor boosting performance in 1986 was the provincial government's continuing strong support for health, education and other social services. The Alberta government also provided significant long-lasting support through the $1 billion Alberta Small Business Term Assistance Plan to the numerous small businesses in the service industry.

Contributions by Sector, Alberta*
(per cent)



Labour Market

Although Alberta's labour market was weakened by the sharp decline in world oil prices, the overall impact was not as severe as many had predicted. Alberta continued to lead the country through 1986 in terms of the number of persons employed as a percentage of total working age population.

Employment in 1986 was, on average, up 2% over 1985, although a downward trend began in the second quarter. By year-end, the unemployment rate stood at over 10%.

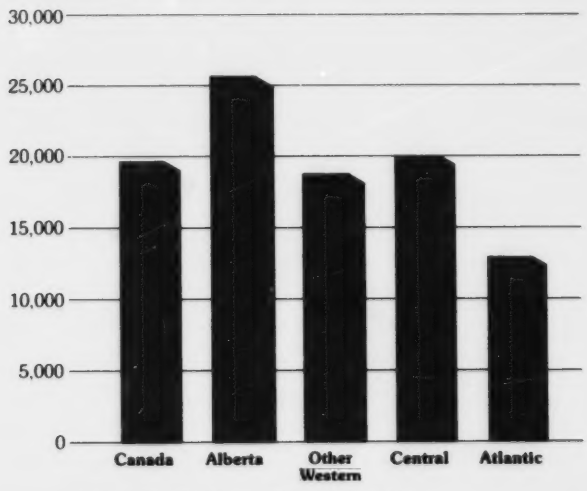
The government took action to strengthen Alberta's labour market as oil and grain prices fell. Our support to the vital energy and agriculture industries helped maintain jobs. As well, direct job creation and training programs further eased unemployment and improved the job prospects of many unemployed Albertans.

Summary of 1986

In summary, the Alberta economy was able to produce the same volume of goods and services in 1986 as in 1985. But the steep decline in the prices of several key commodities meant that the value of production declined by about 10%.

Nonetheless, the value of Alberta's economic

Gross Domestic Product, 1986*
(dollars per capita)

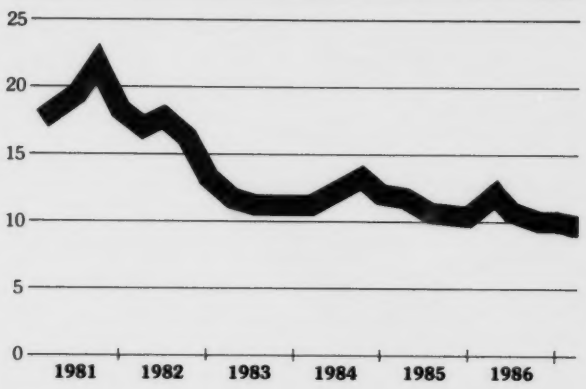


*Source: The Conference Board of Canada

activity, on a per capita basis, is still expected to exceed the Canadian figure by about 30%.

The Alberta economy showed its underlying strength in 1986. Albertans, with their optimism and ingenuity in finding new opportunities, maintained a level of confidence and staying power that has surprised many observers. As well, the Alberta government ran an enormous deficit which shouldered much of the decline in commodity prices.

Prime Lending Rate
(per cent)



The Outlook for 1987

What is in store for 1987? Our oil and gas sector has largely absorbed the direct impacts of sharply lower prices. The indirect effects, however, have yet to work their way fully through the economy and will continue to exert a drag on growth this year. This should not be surprising given the severity of the price shock.

I expect to see renewed oil industry investment in the third quarter, accelerating in the fourth quarter with the start of the winter drilling season. Nonetheless, drilling could be down on average from 1986 as companies move cautiously and look to improve their cash flow and balance sheets. Federal incentives are a key to increasing drilling activity levels.

Despite declining conventional oil production, total crude oil production should increase slightly in 1987. The completion of the Interprovincial Pipeline expansion should eliminate capacity related shut-in production. The volume of natural gas sales should increase, but prices are expected to weaken in 1987.

Grain prices are expected to decline given high world grain stocks and the international grain trading environment. However, the net benefits from ongoing government programs will continue at near record levels. Overall, about $700 million of cash support will be provided to Alberta farmers by the provincial and federal governments in 1987.

The large and diverse service sector will continue to show resilience, although perhaps less so than in 1986. Retail sales will be less buoyant in 1987. Weak personal incomes, virtually no population growth due to net out-migration, and a less expansionary government fiscal policy will constrain consumption. Government restraint will slow growth in the health and education components of the service sector.

Low interest rates will act as a buffer. Consumer goods, home ownership and business investment will all become more attractive. Although the value of retail trade is unlikely to grow, Alberta will continue to rank near the top in retail sales per capita in Canada.

Unfortunately, the labour market is expected to weaken in 1987. The unemployment rate could average in the 11% range, a disturbing waste of human talent and spirit. The expenditure plan for 1987 responds to the need for employment support.

To ensure that public sector wages are sensitive to unemployment levels and general economic and fiscal conditions, I released the government's

fiscal policy statement in late January for use by arbitration boards.

Overall for the economy in 1987, I expect a small decline in the value of total economic activity. But Albertans should not lose sight of our advantages and medium-term opportunities.

Medium-Term Opportunities

Crude oil is a strategic, depleting resource. By limiting future production and encouraging consumption, current low world prices will bring about higher prices and expanding markets in the future. Alberta offers low finding and development costs, a highly encouraging fiscal regime, good geological potential, and enormous known reserves of oil sands and heavy oil. The pipeline system is in place to access markets in central Canada and the United States. Investment will be attracted to Alberta.

Natural gas also has a very promising future. The Americans will need our natural gas and we now have the ability to be price competitive. Our huge reserves, pipeline infrastructure and stable environment will make Alberta a key supplier of natural gas.

Our soil is rich and Alberta's farmers use efficient and up-to-date production techniques. Because production is divided almost evenly between grain and livestock, our farmers are better able to withstand cyclical swings. The government's long-term, fixed interest rate program will reduce costs and make it easier for Alberta farmers and ranchers to plan for the future.

We are succeeding in diversifying the economy. The recently announced ethylene plant to be constructed near Red Deer will enable us to process more of our resources. Tourism is a real strength for Alberta. Visitors and Albertans alike are attracted to the province's beautiful and varied landscape, exciting cities and excellent parks and recreational areas. The 1988 Calgary Winter Olympics will showcase Alberta to the world and boost our tourism and trade opportunities. Our forests contain large untapped reserves; we are attracting new investment in this sector.

Alberta has proven international strengths in technology and research as demonstrated by the achievements of the Alberta Research Council and the Alberta Heritage Foundation for Medical Research. Our universities, colleges and technical institutions are playing a lead role in attracting investment and entrepreneurs to our province. It is important that cooperation and consultation continue with the private sector ensuring further transfers of technology and encouraging more commercial initiatives in the knowledge-based industries.

We have in place the economic and social infrastructure to enable us to capitalize on our opportunities. And we have a government with a record of sound financial management and predictability that is essential to attracting new investment.

Alberta's most important resource is its people. We have a well-educated, highly skilled labour force with the talent and entrepreneurial skills to be competitive in the world marketplace.

Fiscal Situation and Strategy

I now want to review the government's financial record and the fiscal framework for the four years ahead.

A Tradition of Fiscal Responsibility

The Alberta government has a long tradition of sound financial management and low tax rates.

In 1976 we established the Alberta Heritage Savings Trust Fund. Instead of spending all of Alberta's non-renewable resource revenue, we transferred a portion to the Heritage Fund for future use. Central to the thinking behind the Heritage Fund was that it would function as a savings account which would be there when needed.

Faced with a large deficit, the government began transferring, in September 1982, all income earned on Heritage Fund assets to the General Revenue Fund to help finance people programs. Beginning in April 1983, the government reduced the allocation of resource revenue to the Heritage Fund from 30% to 15%.

We also moved to reduce expenditure growth by introducing a restraint program in 1983-84. This included a commitment to downsize the public service. Spending growth slowed sharply that year. Spending actually dropped in 1984-85.

In 1985-86 we moved to ensure the energy industry received the benefits from deregulation. Royalty rates were reduced and incentives increased. To protect our agriculture sector, we provided a massive two-year action plan.

In early 1986 world oil prices suddenly plunged by one-half. Fortunately the government's record of sound fiscal management allowed Alberta to enter 1986-87 with a strong financial position. This enabled the government to pursue a highly expansionary fiscal strategy which is helping Albertans adjust to the new realities of the world marketplace. Although this was appropriate in the short term, we cannot possibly sustain such high deficits.

1986-87 Deficit

I forecast the 1986-87 combined deficit of the General Revenue Fund and the Heritage Fund at $3.3 billion. At almost $1,400 per capita, this is the highest annual deficit in Canada.

Even though we had to approve additional spending authorizations during 1986-87 to meet the rising demands for social programs, growth in combined spending was held to less than 2%. I can also report that our spending for 1986-87 will come in well under the target set in last year's budget. The expenditure freeze we announced last November played a major role in keeping our spending under control. Combined revenue, however, was down over 29% compared to 1985-86. This dramatic decline was largely the result of a 64% drop in resource revenue.

With the backing of the Heritage Fund, we were able to access capital markets as preferred borrowers, obtaining very competitive rates.

In April 1986 we reinstated a weekly auction of treasury bills in Canada. From June 1986 to November 1986, the province issued $700 million in bonds in the Canadian market. Late in 1986 Alberta launched two highly successful issues in the Euro-market: $500 million U.S. of seven-year floating rate notes and $750 million U.S. of five-year fixed rate notes. On a continuing basis during the year, promissory notes issued in Canada were used for interim financing and cash management purposes. A U.S. commercial paper program was also started in the last quarter of 1986-87.

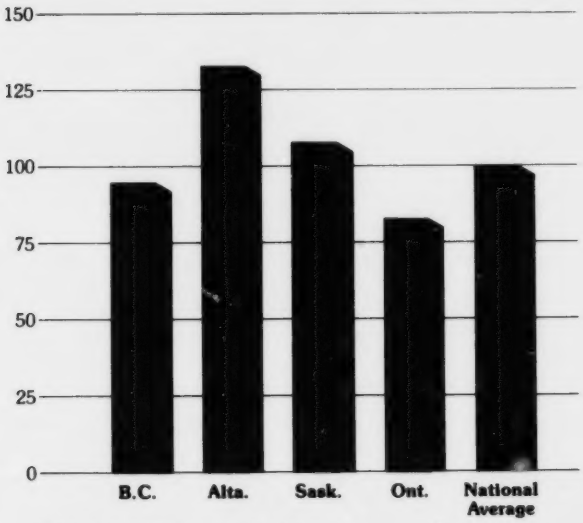
Trends in Alberta's Finances

Despite this government's restraint efforts, spending remains too high relative to our revenue base.

Alberta's per capita expenditure base is approximately one-third above the national average. During the period 1980-81 to 1986-87, combined expenditure grew at an average annual rate of nearly 11%, led by spending on social programs. By comparison, combined revenue actually decreased over this period. Even if we consider only the high oil price years from 1980-81 to 1985-86, revenue grew by less than 4%. This was due to reductions in net

royalty rates and the shift in production away from "old" oil which is subject to higher royalty rates.

Index of Provincial Expenditure Per Capita, 1986-87[a]



[a]Based on Statistics Canada data.

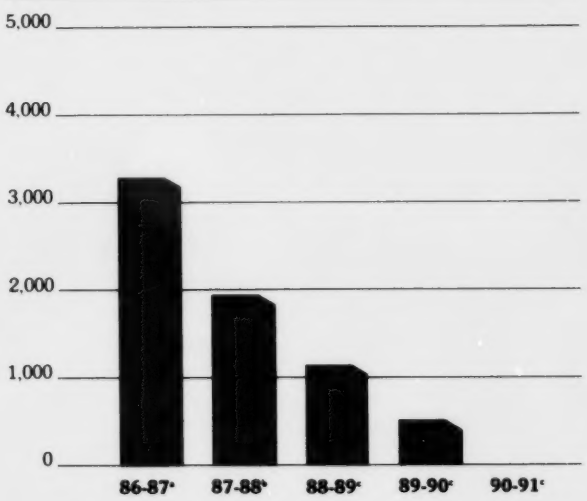
Fiscal Strategy for Deficit Reduction

We must take action now to realign the government's finances. Deficits in the order of $3 billion cannot be allowed to continue. If not checked, Alberta would find itself in a chronic deficit situation with more and more tax dollars diverted from services for Albertans to paying interest on debt. We would be passing to our children and grandchildren the responsibility for paying the bills for the services we enjoy today.

The principles underlying our strategy are financial responsibility, fairness and caring for those in need. We will ensure that our deficit reduction actions will be fair and that those Albertans in need will be protected.

Our fiscal strategy is to reduce our deficit sharply in 1987-88 and to balance the budget by 1990-91. We must begin deficit reduction this year in order to prevent an explosion in the size of our provincial debt. Failing to act decisively now could result in a crisis of major proportions. We simply cannot afford the risks of planning on the basis of an early and dramatic rebound in oil prices. A key guideline of our plan is to maintain debt servicing costs below 10% of revenue.

Combined Annual Deficit
(millions of dollars)



[a]Forecast
[b]Estimate
[c]Fiscal Plan

We will make a three-pronged attack on the deficit. First, we will suspend the resource revenue transfer to the Heritage Fund. Second, we will downsize our expenditure base, ensuring more government efficiency, so that by 1990-91 our spending is not significantly greater on average than that of other provinces. Third, we will increase taxes substantially at the outset of this deficit reduction plan.

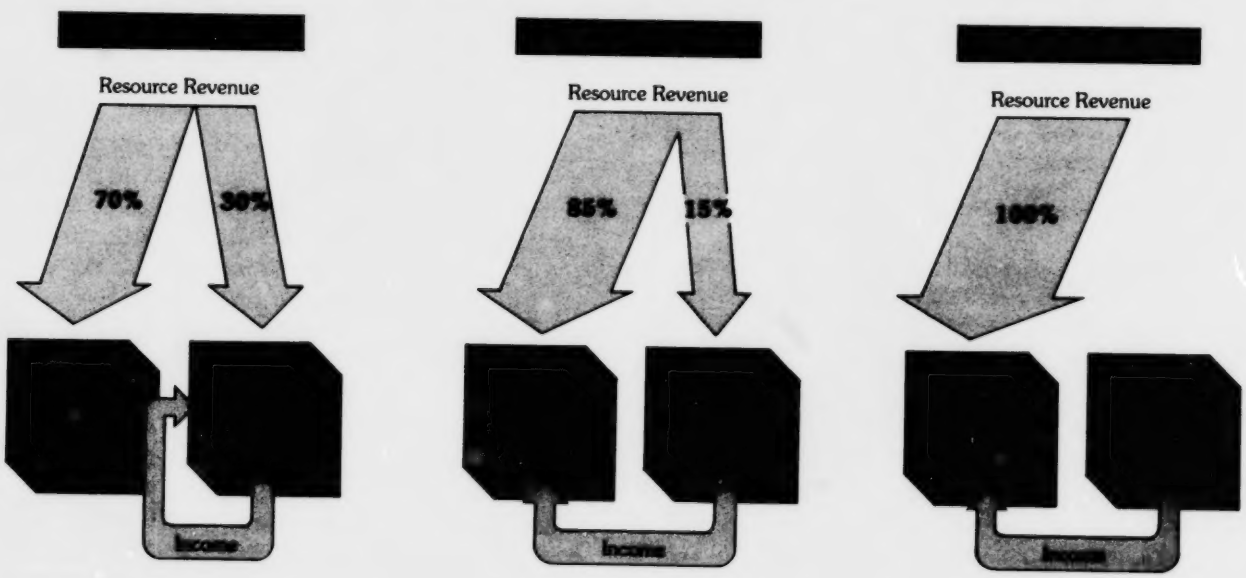
Heritage Fund Policy

The Heritage Fund is a key component of the government's fiscal strategy. We intend to continue to use it wisely for the benefit of Albertans.

Our plan calls for the suspension of the 15% transfer of resource revenue to the Heritage Fund until our financial objectives are met. We will still maintain our commitments under the Capital Projects Division for such projects as irrigation in southern Alberta, private telephone lines for rural Albertans, parks, land reclamation, grazing reserves, health facilities and a variety of research endeavours. This will be accomplished by using a small portion of the existing financial assets of the Heritage Fund.

The Heritage Fund, although "capped", will continue to work for Albertans. The investment income continues to be used to support people programs and the asset base makes it possible for Alberta to borrow at attractive rates. Some have expressed the view that we should spend part of the Heritage Fund to reduce the deficit. The fallacy in this argument is that by spending the fund, the investment income available would be reduced accordingly so that Alberta would be no better off. Meaningful reductions in the deficit must come from revenue and expenditure adjustments.

How the Heritage Fund Works



*The use of Heritage Fund investment income by the General Revenue Fund started in September 1982.

Expenditure Plan

	1987-88 Expenditure Estimate	1986-87 Expenditure Estimate	Percentage Change
	(millions of dollars)		
Combined Program Spending			
Budgetary (GRF)	10,016	10,604	-5.5%
Capital Projects Division (HF)	140	236	-40.7%
Total Program Spending	10,156	10,840	-6.3%
Debt Servicing Costs (GRF)	400	203	97.0%
Total Combined Expenditure	10,556	11,043	-4.4%

Consistent with our multi-year plan to reduce the government's annual deficit from $3.3 billion to zero by 1990-91, combined program spending of the General Revenue Fund and the Heritage Fund will be held at $10.2 billion in 1987-88.

I am recommending an expenditure plan which represents a decrease of 6.3% in combined program spending compared to the 1986-87 estimate. This degree of expenditure reduction by a government is unparalleled in Canada.

Including the $400 million required in 1987-88 to service provincial debt, combined government expenditure in 1987-88 will be under $10.6 billion, a decrease of 4.4% from the comparable 1986-87 figure.

This expenditure plan represents a saving of over $1 billion compared to what program spending would have been assuming no policy changes and allowing for inflation.

	1987-88 Expenditure Estimate	1986-87 Estimate Plus Inflation	Difference
	(millions of dollars)		
Combined Program Spending	10,156	11,274	-1,118
Debt Servicing Costs	400	445	-45
Total	10,556	11,719	-1,163

Expenditure priorities have been established using two guidelines. The first guideline is fairness; the second is that our expenditure reductions should have the least possible adverse effect on Albertans. A careful review of government programs was undertaken. To meet our medium-term fiscal plan, even more work will be required on detailed program evaluation.

The funding priorities we selected for 1987-88 are: employment, education and health, and help for the disadvantaged and those in need. As well, this budget includes continued major funding for agriculture and support for selected economic diversification initiatives.

In recognition of our priorities, the reduction in basic operating grants to educational institutions, active treatment hospitals and municipalities will be limited to only 3% as announced in January. By comparison, government program expenditure in areas other than social services, education and health will decline, on average, by 16% to meet our expenditure plan.

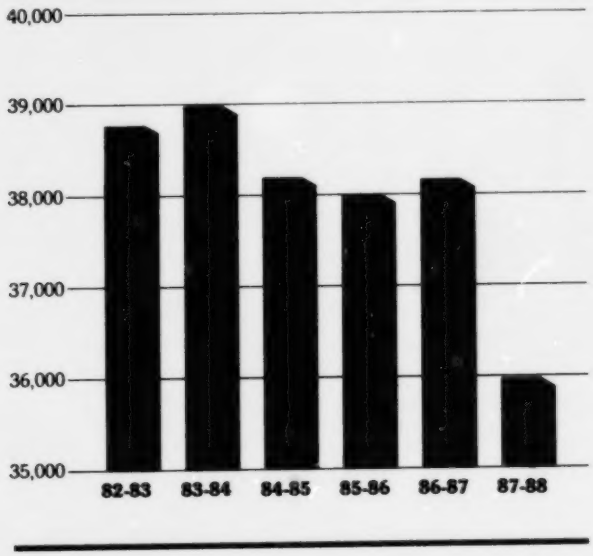
Operating grants to educational institutions, active treatment hospitals and municipalities account for about 40% of the province's operating expenditure and, therefore, cannot be left untouched if we

are to be successful in reducing the deficit. It should be remembered that these major grant recipients received a 4% basic grant increase in 1986-87. The fact is: our education, health, social service and municipal systems have been well funded by the provincial government. By comparison to other provinces, our spending on health, education and social services has consistently ranked at or near the top. Now, when times are tough, we are asking all Albertans to accept their share of the necessary adjustments.

More Efficient Government

We are committed to trimming government overhead to reduce costs. Last November we announced a hiring and discretionary expenditure freeze on government operations for the remainder of the fiscal year. I am pleased to report that we expect to achieve our savings target of $180 million.

Full-Time Equivalent Public Service Employment



The budget for 1987-88 reflects our ongoing commitment to a smaller, more efficient government. Departmental full-time equivalent employment will be reduced by almost 6% in 1987-88. Lay-offs will be few due to attrition and the government's three-part Employee Flexibility Assistance Program which includes an early retirement incentive.

As part of our drive to reduce government overhead, I am announcing that the overall government budget for travel and hosting in 1987-88 will be reduced by 17% from 1986-87 budgeted levels.

Employment Support

This government is deeply concerned about the level of unemployment in the province. We understand the sense of frustration and the hardship that unemployment brings.

Over the next few years, the expected recovery of our energy and agriculture sectors and the continuing success of our economic diversification efforts will create long-term jobs for Albertans. Assistance is also needed now. We will continue our priority commitment to job creation and training through the new Labour Market Strategy which was announced in the Speech from the Throne. I am pleased to announce that **$143.5 million** will be provided in 1987-88 for this initiative.

The main objective of the Labour Market Strategy in 1987-88 will be job creation and retention through wage subsidy programs. By reducing labour costs, these programs encourage businesses, especially small Alberta firms, to expand and create jobs for Albertans. Assistance will also be provided to municipalities and non-profit organizations for job creation projects. Special emphasis will be placed on the employment of social assistance recipients and those who have exhausted their eligibility for unemployment insurance. These initiatives will receive a budget of $76 million. This is an increase

of 52% over last year's budget. In addition, youth employment will receive continued emphasis with a further $40 million provided for the Youth Employment and Training Program and the Summer Temporary Employment Program.

The longer term objective of the Labour Market Strategy is to support the private sector in providing training programs which anticipate changes in Alberta's economy. The availability of workers with the appropriate skills is critical to expanding our high technology industries.

The Alberta Municipal Partnership in Local Employment Program, which was announced in 1986, will provide **$22.5 million** to local governments in 1987-88.

Our capital program will help to create and sustain jobs for Albertans. In deciding on our capital budget, we gave careful attention to maintaining regional balance. Departmental capital spending through the General Revenue Fund and Capital Fund will total $1.5 billion. In addition, Heritage Fund capital projects are estimated at $140 million and Crown corporations will support approximately $750 million in capital activity. In total, the government's capital activity plan will reach approximately **$2.4 billion**.

Quality Education and Health Services

This government has always assigned a high priority to education. We recognize that education represents an investment in our people and in the province's social and economic future.

This afternoon I am pleased to announce a new Alberta School Board Partnership in Local Employment Program. The program will pass on to school boards, over the next eight years, $9.5 million in interest cost savings from the refinancing of the unsupported portion of school capital construction debentures. This program is the same in concept as the Alberta Municipal Partnership in Local Employment Program.

Further demonstrating our commitment to quality education, selective spending increases are planned for 1987-88. Notwithstanding the reduction in grant rates as previously announced, increased costs of almost $33 million associated with higher enrollments, debt retirement and teachers' pensions will be accommodated. Funding to cushion those school jurisdictions with low fiscal capacities from the effects of budget reductions will be increased by nearly 12% to $54.5 million. As well, special funding of $2.6 million will be reallocated to various school jurisdictions to reflect the distribution of severely handicapped students.

Nearly $11 million in additional support will be provided to post-secondary institutions in recognition of new programs and the operating costs of new facilities. Alberta's student financial assistance will remain the best in Canada.

Spending on education is budgeted at **$2.4 billion**. It will constitute over 23% of budgetary expenditure, up from last year's comparable share. As well, the province will provide $45 million through the Capital Fund for construction of post-secondary education facilities. In the period 1980-81 to 1986-87, spending on education has increased on average by 12% per year. Alberta will continue to be among the leaders in providing quality education programs. On a per capita basis, our total education spending is the highest in Canada.

Albertans benefit from health care services and facilities that are second to none. I can report that our total financial support for hospitals and nursing homes is budgeted to increase slightly in 1987-88. As previously announced, the Grey Nuns Hospital in Edmonton is scheduled to open in April 1988, just a few months later than originally planned. I can now confirm that the Peter Lougheed Hospital in Calgary is scheduled to open at the same time.

This government continues to be concerned about rapid increases in the utilization of health care services. Effective July 1, health care premiums will

rise to $18 per month for single individuals and to $36 per month for families. The Health Care Premium Subsidy Program will be enriched and modified so that low income earners are protected from the increase. Even with the increase, only about 40% of the cost of medical services, excluding costs incurred for seniors, will be met through premiums.

Our budget for health is **$2.6 billion**. This represents 25% of budgetary expenditure, a larger share than last year's comparable figure. In addition, $235 million will be provided through the Capital Fund and $14 million from the Heritage Fund.

Help For Those In Need

This government will maintain its major commitment to those less fortunate Albertans who require special assistance.

We recognize that not all Albertans have been able to maintain their employment or to find new jobs during the province's recent economic difficulties. The social safety net will be maintained. Overall funding for the Social Allowance Program will increase by $175 million to $638 million in 1987-88. This major increase will look after an increased number of individuals and families requiring short-term assistance. It will also provide for specific benefit rate increases, particularly for single parent families. Other benefit rates are also being adjusted, including selective reductions for the single employable group. More staff are being added to ensure that those requiring assistance can be helped as quickly as possible.

Funding for the Assured Income for the Severely Handicapped Program will be increased by 20% in 1987-88 to **$126 million**. We will provide income support for an additional 2,300 severely handicapped Albertans in the coming year. Benefit rates will be maintained at current levels.

Funding for Handicapped Children Services will increase by 10% to **$4.9 million**. This level of support will ensure that parents caring for their handicapped children at home do not face financial hardship.

This government's commitment to handicapped persons, together with personal leadership initiatives such as Rick Hansen's inspirational "Man-in-Motion" world tour, will help an ever increasing number of our handicapped citizens to strive for and achieve their full potential.

The Alberta Maintenance Enforcement Program, which was started last year, has proven to be a major success. It will receive $2.7 million in funding to continue its services.

The Community Housing Program which assists low income families, senior citizens and handicapped Albertans, will be increased by nearly 20% to over $21 million.

Senior Citizens

Alberta's programs for senior citizens are unequalled in Canada. We will continue to maintain our benefit levels for the Alberta Assured Income Plan for Senior Citizens and for the Widows' Allowance. In addition, renter assistance grants and property tax rebates will be maintained for our seniors.

Funding will be increased by 24% for dental and optical benefits and special medical equipment and supplies. These benefits for seniors, as well as basic health and Blue Cross coverage, will continue to be provided premium free.

Assistance to senior citizens' lodges will increase 12% to nearly $23 million to ensure that adequate housing is provided for lower income seniors.

We will be expanding and improving programs and services for the elderly in nursing homes and auxiliary hospitals. We are also introducing a new program to assist private and voluntary nursing homes with capital improvements to bring older nursing homes up to today's standards.

Agriculture

This government's commitment to agriculture is steadfast. Our government has a history of responding to the needs of the agriculture sector. When drought caused hardship for grain, livestock and other producers, this government acted. Numerous special programs costing over $120 million were implemented over the last two years.

Our government's primary commitment is to the long-term viability of Alberta's agriculture sector. This budget maintains the insurance and stabilization programs, and continues others designed to reduce input costs.

This afternoon, I am pleased to announce that farmers will continue to receive a 14 cent per litre advantage on the price of fuel. $97 million has been budgeted for this program.

My colleague, the Minister of Agriculture, has already announced that the Farm Fertilizer Price Protection Plan is extended to cover the 1987 crop. It is estimated that this program will reduce farmers' fertilizer costs by approximately $22 million in 1987-88.

While changes in the crop insurance program are being considered, the special Crop Insurance Coverage Restoration Program has been extended for another year at an estimated cost of $5 million. Similarly, the government has budgeted over $5 million to maintain the insurance premium subsidy offered to producers in high risk areas.

The cost of borrowing money is a significant input cost for Alberta's farmers and ranchers. The innovative, $2 billion Alberta Farm Credit Stability Program ensures that Alberta producers benefit from long-term, fixed rate interest costs. Approximately 13,000 farmers have received approval under this program and a further 4,000 are expected to benefit. The statutory funding in 1987-88 to cover the costs of the program is estimated at $35 million.

This government continues to push for a change in the federal government's position regarding the payment of the Crow Rate benefit. While we are increasing our efforts to have payments made directly to producers, the province's livestock feeders will receive funding from the Crow Benefit Offset Program. Over $47 million is provided in this budget to help neutralize the feed grain price distortion created by the existing federal policy.

To help protect Alberta's livestock producers from cyclical markets, this government promoted the implementation of a national tripartite stabilization program for red meat. Over $15 million is budgeted in 1987-88 as the province's share of premium costs.

This budget includes funding for initial operation of the Agricultural Research Institute. The Institute will bring the industry, academic institutions and government together to coordinate research programs. This action will improve the effectiveness of our agricultural research spending and will help to maintain the competitiveness of Alberta's producers and processors in the world market.

As evidence of this government's ongoing efforts to develop and expand markets for our agricultural products, we will develop a major marketing initiative to promote the sale of Alberta beef in Japan. Marketing of our agricultural products remains an ongoing commitment.

This budget will provide nearly $400 million in provincial support to Alberta's farmers and ranchers in 1987-88. In addition, the Heritage Savings Trust Fund continues to work to strengthen the agriculture sector. $70 million will be provided through the departments of Agriculture and Environment for irrigation programs and $3 million will be allocated for further development of grazing reserves. As well, the Farming for the Future research program will be extended at a cost of $5 million. Over $18 million will be provided through the Heritage Fund in support of our program to offer individual telephone service to rural Albertans. This program will enhance the quality of rural life. Overall, nearly **half a billion dollars** will be targeted to agriculture.

Economic Development

As part of our overall commitment to job creation, this government will continue to encourage diversification of Alberta's economic base.

Small businesses play a key role in the government's diversification strategy. They are the innovators and risk takers. Through the highly successful Small Business Term Assistance Plan, fixed interest, medium to long-term loans totaling nearly $1 billion are being made available. Approximately 11,000 small businesses have been approved. This program has generated employment and investment at a crucial time. In 1987-88 statutory funding of $17 million is required to cover the costs of the program.

Other programs and benefits designed to support small business are the Alberta Small Business Equity Corporations Program, the Alberta Stock Savings Plan, preferential corporate income tax rates, the many programs and services offered by Economic Development and Trade, and the lending programs of the Alberta Opportunity Company.

The range of financing options that the Alberta Opportunity Company offers will be broadened to assist Alberta small businesses and the government's diversification efforts. The company will make available $15 million of creative financing in 1987-88. This will generally take the form of "patient capital" which allows for a payment structure more suited to the cash flows of a developing business. This initiative is primarily aimed at assisting small businesses engaged in tourism, manufacturing and high technology.

A special allocation of $3 million will be created for the development of initiatives in the tourism, agriculture, advanced technology, manufacturing and forestry sectors. This funding is in addition to the millions of dollars budgeted directly by departments to support the province's economic development and diversification strategy.

Under the Heritage Fund's Alberta Investment Division, approximately $90 million will be advanced in 1987-88. This is part of the government's $120 million loan commitment to help finance the development of a pulp mill in Whitecourt.

Expenditure Plan In Summary

In summary, the 1987-88 expenditure plan will assist employment, maintain quality people services and protect those in need while significantly reducing our annual deficit. This is possible through greater reductions in other expenditure areas. Even though combined program spending is budgeted to decline by 6.3%, debt servicing costs are budgeted to double to $400 million. In total, combined expenditure is targeted to be reduced by 4.4% from the 1986-87 estimate.

Taxation and Fee Changes

This year's budget will require adjustments not only to expenditure, but also to revenue. Our objective is to provide a balance between expenditure reductions and taxation increases.

Over the last several years, Albertans have enjoyed by far the lowest overall tax rates of any province. This was made possible by our resource revenue which, in the early 1980's, was the equivalent of an 18% retail sales tax. In 1986-87 with the fall in oil prices, our resource revenue was only the equivalent of a 6% sales tax.

We are now in a situation where our current

revenue sources and tax rates are not generating enough revenue to fund even our reduced expenditure base. In this budget, I am asking Albertans to pay more through taxes so that we can maintain the quality of our programs.

In considering tax increases, we were concerned with the implications for the economy and the impact on low income Albertans. Three benchmarks were adopted. First, Alberta's tax load should remain the lowest of any province. Second, the burden of tax increases should be shared between businesses and individuals. Third, low income groups should be protected.

For more than a decade, Alberta has had the lowest personal income tax rate of all the provinces. Given this available tax room, we will increase the rate by 3 points to 46.5% of basic federal tax effective the 1987 taxation year. This will remain the lowest basic tax rate of any province. As well, we are introducing a temporary high income surtax of 8% to ensure that Albertans with the ability to pay will make a relatively greater contribution. A temporary flat rate tax of one per cent of taxable income will also be introduced. To cushion low income Albertans, the selective tax reduction will be enriched, benefiting nearly one-half million Albertans at a cost of $72 million. I estimate that the combination of these personal tax measures will provide $376 million in additional revenue in 1987-88.

The Renter Assistance Credit will be discontinued beginning with the 1987 taxation year. The low vacancy rates and high rents which prevailed when this credit was introduced years ago no longer exist. This measure will add $90 million to revenue but not until 1988-89. Albertans will still be able to claim the credit for rent paid in 1986 when filing their 1986 tax returns. The Senior Citizens Renter Assistance Grant of $1,200 will not be affected.

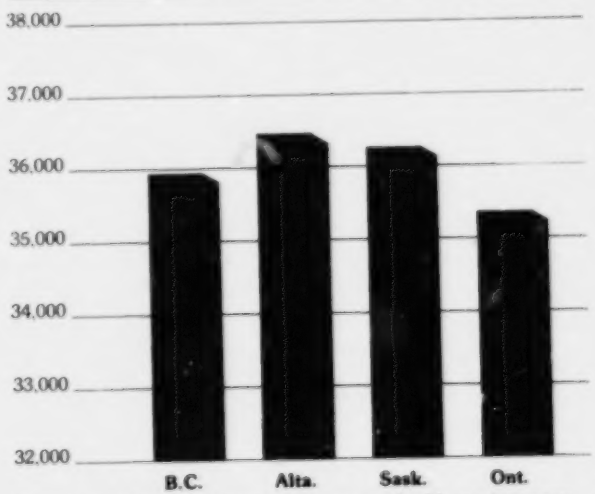
Tobacco taxes will increase to 4 cents per cigarette or one dollar per pack of 25 cigarettes effective midnight tonight. This will put Alberta's rate close to the national average and will add an estimated $115 million in revenue. As well, Alberta Liquor Control Board mark-ups will be increased to generate an additional $40 million.

Effective May 1, the registration fee for a passenger vehicle will be raised to $41 per year and by varying amounts for other vehicles. Renewal fees for operators' licences will be increased to $30 per five-year period. Other miscellaneous fees for government services will be increased to recover a greater portion of the cost of providing the services. In total I estimate these fee increases will provide in the order of $51 million.

We will be introducing, effective June 1, a new hotel room tax of 5%. It will raise an estimated $9 million. All other provinces except Quebec tax temporary accommodation and at higher rates.

A fuel tax of 5 cents per litre on gasoline and diesel fuel used in motor vehicles will be introduced effective June 1. This rate is the lowest among the

Comparison of Take Home Pay
After Provincial Taxes
(for a family of four with a gross income of $40,000)



Income net of provincial personal income tax, health care insurance premiums, sales tax, tobacco tax and fuel tax. Other provinces as of March 2, 1987.

provinces except for Saskatchewan. Farmers will be exempt from this tax. The tax on fuel used in locomotives and large aircraft will be increased to 5 cents per litre and extended to small aircraft. These measures will add $230 million to revenue.

Businesses are also asked to accept their share of the fiscal adjustment. Like individuals, corporations will pay the fuel tax, increased vehicle registration fees, the new hotel room tax and the employer portion of health care premiums. As well, I am announcing that the income tax rate on large corporations will increase by more than one-third to 15% effective April 1, 1987. On an overall basis, Alberta will still have the lowest corporate tax rate in Canada. I expect this measure to contribute an additional $117 million to revenue in 1987-88.

The small business income tax rate will not be increased. As in the past, the rate will be 5% for small businesses and zero on their income from manufacturing and processing.

The insurance corporations tax rate will be raised by one-half to 3% of premium revenue from policies other than for life, sickness or accident insurance. This measure brings Alberta in line with other provinces and is expected to increase revenue by $10 million.

These measures will add nearly one billion dollars to provincial revenue. However, Alberta will continue to have no sales tax, no payroll tax and no capital tax. Albertans on average will continue to pay lower provincial taxes than other Canadians.

Revenue Outlook

Including the tax measures just described, total tax revenue is estimated at $3.3 billion. This represents an increase of 37% over the 1986-87 forecast.

Combined non-renewable resource revenue is estimated at $1.7 billion, which is 11% above the forecast for 1986-87. Underlying the royalty estimate is an average oil price assumption of $17 U.S. per barrel.

Payments to Alberta from the Government of Canada are expected to be up by 15%. The increase reflects, in part, a claim we will be pursuing with the federal government under the stabilization provisions of the Fiscal Arrangements Act in respect of the large drop in revenue in 1986-87.

Heritage Fund investment income is projected at $1.3 billion which is 10% below the 1986-87 forecast. The decline is due, in large part, to lower interest rates. Nevertheless, Heritage Fund investment income will provide 15% of total combined revenue.

Overall, I estimate 1987-88 combined revenue to be $8.6 billion, an increase of 15%. Resource revenue is expected to account for 20% of total revenue and taxation 39%. This is virtually the reverse of the situation of only a few years ago.

Financial Plan

Based on the revenue projections I have just reviewed and the expenditure plan I outlined earlier, the combined General Revenue Fund and Heritage Fund deficit is estimated at $1.9 billion in 1987-88. This represents a decrease of over 40% from the 1986-87 forecast—a major achievement.

Summary Financial Plan
(millions of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Combined Revenue				
Budgetary				
General	7,327	5,785	6,848	8,206
Heritage Fund Investment Income	1,300	1,445	1,460	1,667
Heritage Fund Resource Revenue (15%)	—	244	405	666
	8,627	7,474	8,713	10,539
Combined Expenditure				
Budgetary				
Program	10,016	10,368	10,604	10,295
Debt Servicing Costs	400	185	203	36
Heritage Fund Capital Projects	140	223	236	240
	10,556	10,776	11,043	10,571
Combined Deficit	1,929	3,302	2,330	32

The General Revenue Fund, the main operating account of the province, is estimated to have a deficit of $1.8 billion in 1987-88, down sharply from the 1986-87 forecast of $3.3 billion. A major factor in the improvement is the suspension of the Heritage Fund transfer which adds $262 million to budgetary revenue in 1987-88.

General Revenue Fund
(millions of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Budgetary Revenue				
General Revenue	7,327	5,785	6,848	8,206
Heritage Fund Investment Income	1,300	1,445	1,460	1,667
	8,627	7,230	8,308	9,873
Budgetary Expenditure				
Program	10,016	10,368	10,604	10,295
Debt Servicing Costs	400	185	203	36
	10,416	10,553	10,807	10,331
Budgetary Deficit	1,789	3,323	2,499	458

Provincial Borrowing

The net cash requirements for the General Revenue Fund and the Capital Fund are estimated to total $2.1 billion during 1987-88, down 44% from 1986-87.

Net Cash Requirements
(millions of dollars)

	1987-88 Estimate	1986-87 Forecast	1985-86 Actual
General Revenue Fund			
Budgetary Deficit	1,789	3,323	458
Net Non-Budgetary Transactions	128	(21)	350
Adjustments to cash basis	(79)	221	(548)
	1,838	3,523	260
Capital Fund	290	262	—
Retirement of External Debt	16	15	14
Net Cash Requirements	2,144	3,800	274

Conclusion

This afternoon I have outlined for this Legislative Assembly and for Alberta, a fiscal plan which will set us on a new course toward the opportunities ahead. Alberta faces many new challenges and we must all rise to the occasion. We must discard many of the solutions from the past and think anew and act anew. We must be determined in our resolve to eliminate the deficit in an orderly way over the next four years. This budget will turn the corner on the deficit. Fiscal responsibility means making tough choices and this government is prepared to act.

Yet all Albertans can be proud of the programs provided in this budget. We have continued our commitment to job creation, education, health, help for those in need and agriculture. Our overall expenditure plan for 1987-88 will provide Albertans with the most comprehensive services available in Canada at levels of funding still among the highest of any province.

Exciting opportunities lie ahead. Alberta has a strong resource base that will provide a foundation for future growth. Our private sector, working with government, is diversifying the Alberta economy. We are fortunate indeed to have a well-trained and talented population to complement our strength in natural resources.

It is now time for all Albertans to remember the spirit on which our province was built and to join together with new ideas and renewed determination to build a better future for us all.

Appendix A

General Revenue Fund

Tables and Charts

Tables

A1	Budgetary Revenue and Expenditure	30
A2	Budgetary Revenue	32
A3	Budgetary Expenditure	34
A4	Operating and Capital Expenditure	36
A5	Deductions from Income Tax Revenue	37
A6	Non-Budgetary Transactions	37
A7	Change in Unmatured Debt	38
A8	Guarantees	38

Charts

A1	Budgetary Revenue and Expenditure	31
A2	Budgetary Revenue by Major Source, 1987-88 Estimate	33
A3	Budgetary Expenditure by Major Function, 1987-88 Estimate	35

General Revenue Fund

The province has two main funds. The General Revenue Fund is the primary operating account of the province. It receives all public money, except money which is already specially disposed of by legislation or money paid in trust to the province. Expenditure from the General Revenue Fund is used to finance the day-to-day operations and programs of government departments. The other main fund, the Heritage Fund, is described in Appendix B. Three other funds of particular interest are described in Appendix C. They are used to finance capital construction and farm and small business loans.

A Guide to the Tables

The annual budget of the province is concerned primarily with the operations of the General Revenue Fund. The term "budgetary" is used to describe revenue or expenditure that affects the net assets of the General Revenue Fund.

The two major categories of budgetary revenue are general revenue and Heritage Fund investment income. General revenue consists of taxes, non-renewable resource revenue, transfers from the Government of Canada, revenue from fees, permits and licences, trading profits and miscellaneous revenue. The Heritage Fund investment income category highlights the contribution made to budgetary revenue, since September 1982, by the transfer of all the investment income earned on Heritage Fund assets.

Budgetary expenditure has two major components: voted and statutory. Voted expenditure relates to appropriations made on the authority of annual supply votes approved by the Legislature, including special warrant requests authorized by the Lieutenant Governor in Council. Statutory expenditure refers to appropriations made on the authority of legislation and relates primarily to public debt servicing costs and revolving funds.

Budgetary expenditure is presented in the tables by functional category and by department. The departmental estimates for the current year are further divided into operating and capital expenditure.

Non-budgetary transactions affect the financial assets and liabilities of the General Revenue Fund but, unlike budgetary transactions, do not change the net asset position. They relate primarily to loans and advances to government and private enterprises, the issue and retirement of the province's debt instruments, and the purchase and sale of investments by the General Revenue Fund.

In reviewing the tables, note that the transfer of 15% of non-renewable resource revenue to the Heritage Fund will be suspended beginning with the 1987-88 fiscal year.

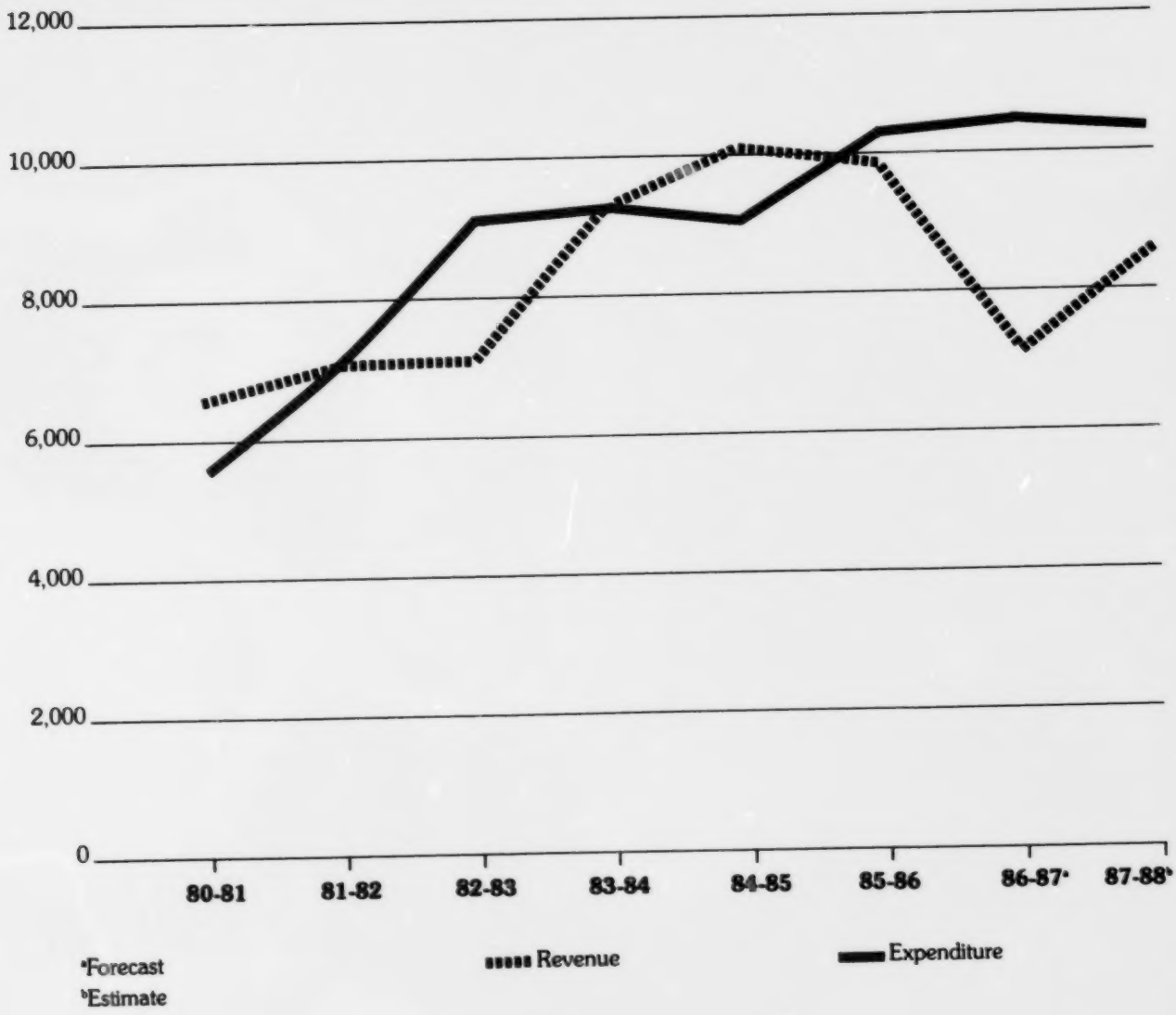
TABLE A1

General Revenue Fund
Budgetary Revenue and Expenditure
(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Revenue				
General Revenue	3,340,000	2,435,000	2,717,000	2,573,046
Taxes	1,740,000	1,323,000	2,243,000	3,644,021
Non-Renewable Resource Revenue	1,470,000	1,277,000	1,154,000	1,231,708
Payments from Government of Canada	237,000	188,000	189,000	185,576
Fees, Permits and Licences	360,000	320,000	331,000	324,218
Trading Profits	180,000	242,000	214,000	247,827
Other Revenue	7,327,000	5,785,000	6,848,000	8,206,396
	1,300,000	1,445,000	1,460,000	1,666,863
Heritage Fund Investment Income	8,627,000	7,230,000	8,308,000	9,873,259
Expenditure				
Health	2,602,821	2,615,042	2,625,216	2,580,924
Education	2,401,085	2,494,063	2,478,881	2,369,841
Social Services	1,362,909	1,294,079	1,210,982	1,146,735
Regional Planning and Development	285,130	294,469	309,319	272,997
Housing	287,588	256,704	272,018	260,448
Recreation and Culture	171,803	196,502	204,637	181,690
Environment	103,705	138,733	163,739	113,797
Resource Conservation and Economic Development	824,134	1,032,873	1,102,910	997,873
Transportation and Utilities	866,766	997,014	1,029,902	1,071,784
Protection of Persons and Property	407,395	439,437	433,730	398,965
General Government	702,777	778,721	772,515	900,624
Debt Servicing Costs	400,000	185,000	203,000	35,782
Allowance for Unexpended Balances	—	(169,756)	—	—
	10,416,113	10,552,881	10,806,849	10,331,460
Budgetary Deficit	1,789,113	3,322,881	2,498,849	458,201

Budgetary Revenue and Expenditure
(millions of dollars)

CHART A1



ᵃForecast
ᵇEstimate

General Revenue Fund

Budgetary Revenue

(thousands of dollars)

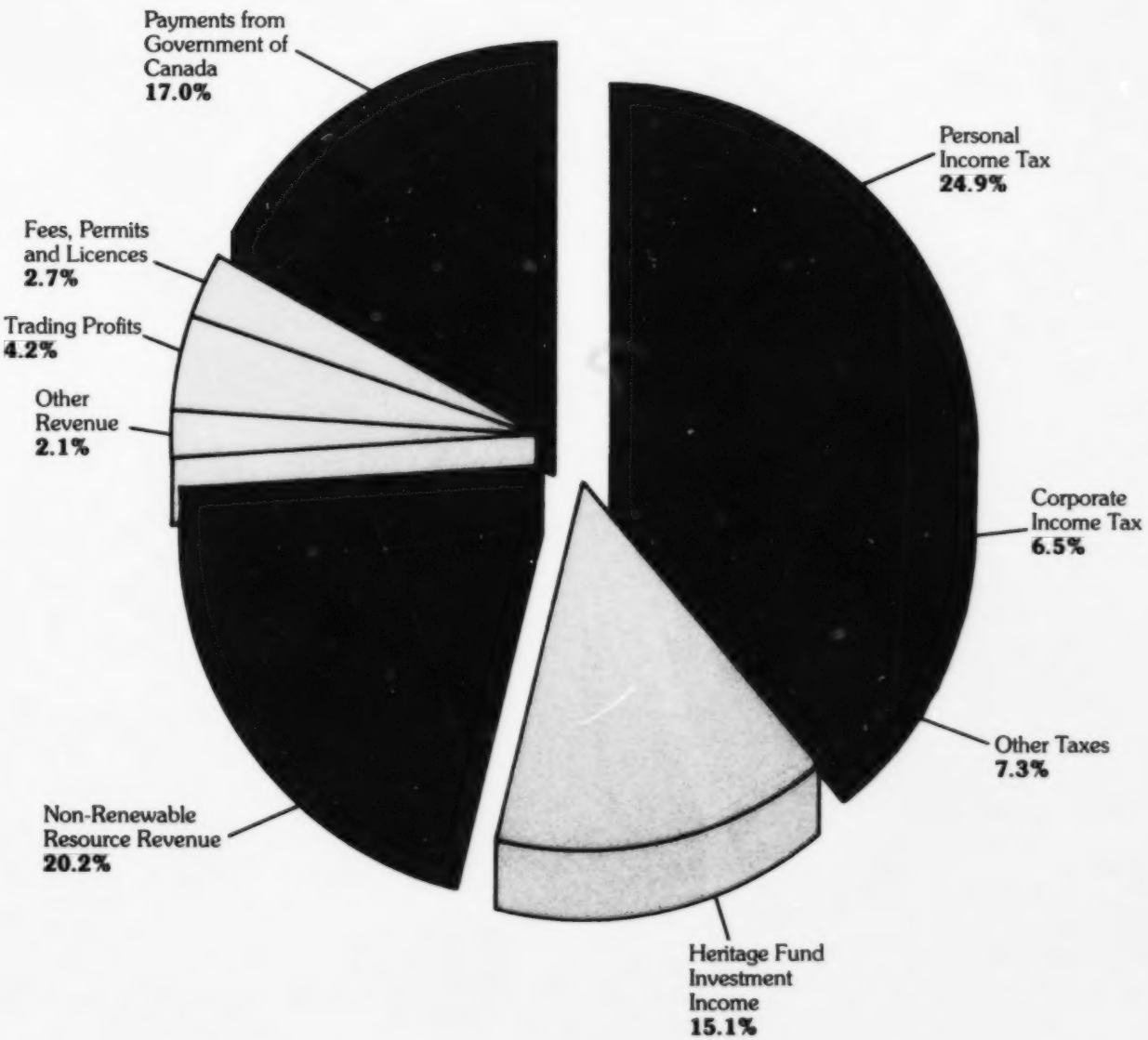
TABLE A2

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Taxes				
Personal income tax	2,150,000	1,774,000	1,722,000	1,521,228
Corporate income tax	560,000	400,000	700,000	711,162
Fuel tax	236,000	6,000	6,000	5,710
Freehold mineral rights tax	116,000	110,000	141,000	188,818
Tobacco tax	213,000	98,000	98,000	100,050
Insurance corporations tax	47,000	37,000	40,000	35,487
Hotel room tax	9,000	—	—	—
Other taxes	9,000	10,000	10,000	10,591
	3,340,000	2,435,000	2,717,000	2,573,046
Non-Renewable Resource Revenue				
Crude oil royalty	977,000	982,000	NA	2,533,673
Natural gas and by-products royalty	1,007,000	1,205,000	NA	1,805,935
Synthetic crude oil and bitumen royalty	22,000	20,000	NA	220,868
Coal royalty	9,000	9,000	NA	10,928
Rentals and fees	96,000	95,000	NA	91,184
Bonuses and sales of Crown leases	300,000	235,000	NA	724,418
Less: Drilling, well servicing and geophysical incentives	(205,000)	(190,000)	NA	(44,192)
Allocation to Alberta Petroleum Incentives Program Fund	(43,000)	(285,000)	NA	(490,760)
Royalty tax credit	(419,000)	(444,000)	NA	(410,779)
	1,744,000	1,627,000	NA	4,441,275
Allocation to Alberta Heritage Savings Trust Fund	—	(244,000)	(405,000)	(666,191)
Allocation to Natural Gas Rebates Fund	(4,000)	(60,000)	NA	(131,063)
	1,740,000	1,323,000	2,243,000	3,644,021
Payments from Government of Canada				
Canada assistance plan	460,000	438,000	380,000	379,961
Hospital insurance	434,000	369,000	361,000	362,374
Post-secondary education	250,000	213,000	203,000	206,032
Extended health care	112,000	106,000	106,000	98,970
Training of manpower	34,000	40,000	40,000	45,198
Other	180,000	111,000	64,000	139,173
	1,470,000	1,277,000	1,154,000	1,231,708
Fees, Permits and Licences				
Motor vehicle licences	108,000	85,000	82,000	82,325
Other	129,000	103,000	107,000	103,251
	237,000	188,000	189,000	185,576
Trading Profits				
Alberta Liquor Control Board	350,000	310,000	330,000	314,500
Other	10,000	10,000	1,000	9,718
	360,000	320,000	331,000	324,218
Other Revenue				
Investment income	27,000	94,000	85,000	119,950
Refunds of expenditure	69,000	70,000	65,000	67,513
Miscellaneous	84,000	78,000	64,000	60,364
	180,000	242,000	214,000	247,827
Total General Revenue	7,327,000	5,785,000	6,848,000	8,206,396
Heritage Fund Investment Income	1,300,000	1,445,000	1,460,000	1,666,863
Total Budgetary Revenue	8,627,000	7,230,000	8,308,000	9,873,259

NA – not specifically estimated in the 1986 Budget.

Budgetary Revenue
By Major Source, 1987-88 Estimate **CHART A2**

Total Budgetary Revenue — **$8,627 million**



General Revenue Fund

TABLE A3

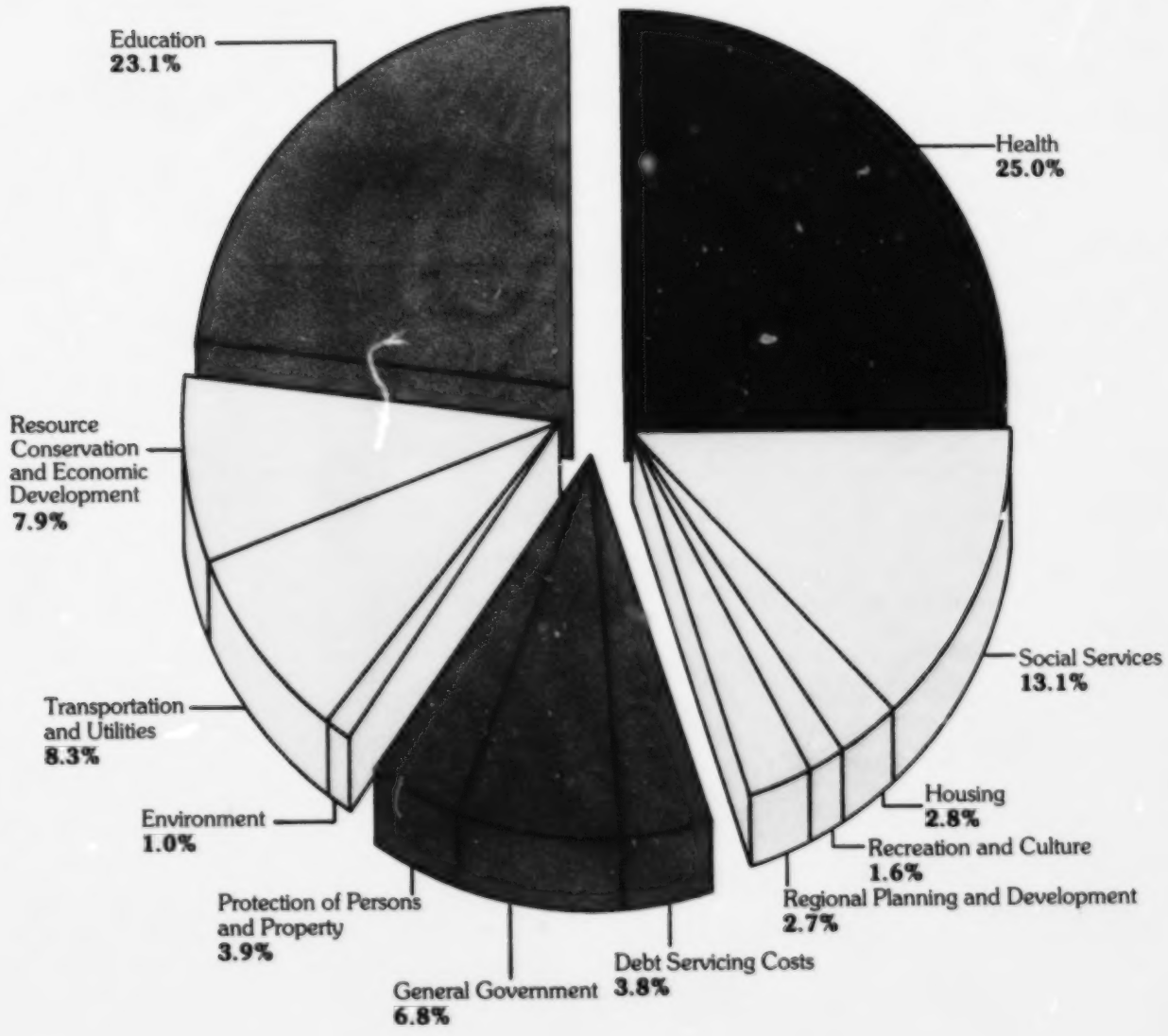
Budgetary Expenditure

(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Legislative Assembly	27,859	30,639	35,445	24,926
Government				
Advanced Education	901,149	947,836	952,036	916,693
Agriculture	261,850	413,806	437,570	442,187
Attorney General	133,804	140,526	146,358	132,095
Career Development and Employment	216,330	231,935	217,929	210,281
Community and Occupational Health	311,062	311,396	339,674	293,281
Consumer and Corporate Affairs	15,133	16,169	16,979	15,304
Culture	49,902	56,261	59,559	57,980
Revolving Fund	(10)	1	32	2
Economic Development and Trade	52,850	62,498	66,087	79,885
Education	1,271,725	1,300,379	1,296,324	1,231,401
Revolving Fund	303	820	301	889
Energy	78,622	103,088	111,967	99,007
Environment	103,423	138,668	163,622	113,636
Water Resources Revolving Fund	282	65	117	160
Executive Council	49,267	72,138	53,859	43,361
Federal and Intergovernmental Affairs	7,256	8,206	7,958	6,623
Forestry, Lands and Wildlife	163,595	193,663	190,633	175,633
Revolving Fund	(109)	60	(38)	804
Hospitals and Medical Care	2,308,978	2,321,322	2,330,585	2,303,795
Labour	36,866	38,023	39,298	36,882
Personnel Administration Revolving Fund	90	(4)	(5)	(67)
Municipal Affairs	659,498	637,049	656,795	634,610
Public Works, Supply and Services	487,258	526,774	573,476	508,371
Revolving Fund	1,376	12,055	10,144	(10,151)
Recreation and Parks	111,434	129,685	133,715	114,160
Revolving Fund	1	24	—	4
Social Services	1,237,158	1,165,427	1,051,878	1,021,182
Solicitor General	239,158	240,454	249,972	229,308
Technology, Research and Telecommunications	59,855	64,252	63,385	53,980
Tourism	35,012	28,651	39,112	14,937
Transportation and Utilities	873,994	1,000,158	1,021,536	1,041,335
Revolving Fund	(7,228)	(3,144)	8,366	31,177
Gas Alberta Operating Fund	—	—	—	(728)
Treasury	157,240	195,706	196,579	177,551
Statutory Appropriations	157,154	151,014	132,601	295,184
Debt Servicing Costs	400,000	185,000	203,000	35,782
Employee Flexibility Assistance Program Fund	13,976	2,037	—	—
Allowance for Unexpended Balances	—	(169,756)	—	—
	10,388,254	10,522,242	10,771,404	10,306,534
Total	10,416,113	10,552,881	10,806,849	10,331,460
Summary				
Voted Appropriations	9,864,254	10,206,990	10,452,331	9,978,404
Statutory Appropriations	551,859	345,891	354,518	353,056
	10,416,113	10,552,881	10,806,849	10,331,460

Budgetary Expenditure
By Major Function, 1987-88 Estimate **CHART A3**

Total Budgetary Expenditure — **$10,416 million**



General Revenue Fund

TABLE A4

Operating and Capital Expenditure

(thousands of dollars)

	1987-88 Estimate		
	Operating	**Capital**	**Total**
Legislative Assembly	27,456	403	27,859
Government			
Advanced Education	836,827	64,322	901,149
Agriculture	253,604	8,246	261,850
Attorney General	132,358	1,446	133,804
Career Development and Employment	215,244	1,086	216,330
Community and Occupational Health	309,963	1,099	311,062
Consumer and Corporate Affairs	15,001	132	15,133
Culture	47,845	2,057	49,902
Revolving Fund	(10)	—	(10)
Economic Development and Trade	52,588	262	52,850
Education	1,206,349	65,376	1,271,725
Revolving Fund	(126)	429	303
Energy	51,242	27,380	78,622
Environment	70,609	32,814	103,423
Water Resources Revolving Fund	(508)	790	282
Executive Council	48,938	329	49,267
Federal and Intergovernmental Affairs	7,202	54	7,256
Forestry, Lands and Wildlife	156,313	7,282	163,595
Revolving Fund	(125)	16	(109)
Hospitals and Medical Care	2,256,060	52,918	2,308,978
Labour	36,584	282	36,866
Personnel Administration Revolving Fund	82	8	90
Municipal Affairs	647,681	11,817	659,498
Public Works, Supply and Services	316,686	170,572	487,258
Revolving Fund	(14,666)	16,042	1,376
Recreation and Parks	67,056	44,378	111,434
Revolving Fund	1	—	1
Social Services	1,234,607	2,551	1,237,158
Solicitor General	237,453	1,705	239,158
Technology, Research and Telecommunications	55,982	3,873	59,855
Tourism	33,635	1,377	35,012
Transportation and Utilities	208,592	665,402	873,994
Revolving Fund	(12,610)	5,382	(7,228)
Treasury	156,693	547	157,240
Statutory Appropriations	132,894	24,260	157,154
Debt Servicing Costs	400,000	—	400,000
Employee Flexibility Assistance Program Fund	13,976	—	13,976
	9,174,020	1,214,234	10,388,254
Total	9,201,476	1,214,637	10,416,113
Summary			
Voted Appropriations	8,696,544	1,167,710	9,864,254
Statutory Appropriations	504,932	46,927	551,859
	9,201,476	1,214,637	10,416,113

General Revenue Fund

TABLE A5

Deductions from Income Tax Revenue

(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Personal Income Tax				
Renter assistance credit	90,000	90,000	90,000	89,460
Alberta Stock Savings Plan	10,000	—	—	—
	100,000	90,000	90,000	89,460
Corporate Income Tax				
Rental investment credit	500	245	1,000	700
Allocation to Utility Companies Income Tax Rebates Fund	70,900	71,800	67,500	69,045
	71,400	72,045	68,500	69,745
Total	171,400	162,045	158,500	159,205

General Revenue Fund

TABLE A6

Non-Budgetary Transactions*

(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Receipts				
Repayment of loans and advances				
Government enterprises	66,920	206,110	56,374	82,709
Other	39,083	42,139	4,209	3,535
	106,003	248,249	60,583	86,244
Disbursements				
Loans and advances				
Government enterprises	76,900	82,250	90,750	227,373
Other	133,400	97,036	66,010	103,013
Long-term investments	24,167	48,059	29,586	105,653
	234,467	227,345	186,346	436,039
Net Receipts (Disbursements)	(128,464)	20,904	(125,763)	(349,795)

* Excludes debt transactions.

General Revenue Fund **TABLE A7**

Change in Unmatured Debt

(thousands of dollars)

Unmatured Debt at March 31, 1986		124,545
Add:		
Issue of Treasury bills, net	612,124	
Issue of promissory notes, net	914,343	
Issue of debentures	691,700	
Notes payable in United States dollars	1,028,231	
Amortization of discount	55,377	
	3,301,775	
Deduct:		
Sinking fund earnings	7,742	
Sinking fund contribution	3,834	
	11,576	
		3,290,199
Unmatured Debt at December 31, 1986		3,414,744

General Revenue Fund **TABLE A8**

Guarantees[a]

(thousands of dollars)

	At December 31	At March 31[b]	
	1986	1986	1985
Guaranteed Debenture Debt			
AEC Power Limited	233,885	210,139	220,700
Vencap Equities Alberta Ltd.	40,000	40,000	40,000
	273,885	250,139	260,700
Guaranteed Loans			
Students Loan Guarantee Act	99,206	98,329	91,353
Agricultural Societies Act	21,896	40,531	43,190
Alberta Small Business Term Assistance Plan	35,963	—	—
Alberta Farm Credit Stability Program	58,646	—	—
AEC Power Limited	—	34,994	23,017
Other	64,563	49,645	46,789
	280,274	223,499	204,349
Total	554,159	473,638	465,049

[a] Excludes guaranteed liabilities of government entities.

[b] Readers should refer to the Public Accounts of Alberta for additional details.

Appendix B

Alberta Heritage Savings Trust Fund

Tables and Charts

Tables

B1 Source and Application of Funds 42

Charts

B1 Alberta Heritage Savings Trust Fund Net Income 43
B2 Alberta Heritage Savings Trust Fund Financial Assets 44
B3 Composition of Alberta Heritage Savings Trust Fund Financial Assets at March 31, 1987 45

The Alberta Heritage Savings Trust Fund

In 1987-88, for the first time in its eleven year history, the Alberta Heritage Savings Trust Fund will not receive a portion of the province's non-renewable resource revenue. Instead, all non-renewable resource revenue will be retained in the General Revenue Fund to help reduce the budgetary deficit. For four fiscal years, the transfer of non-renewable resource revenue has been reduced to 15% from 30% in response to the province's budgetary requirements.

Prior to September 1982, all the investment earnings of the Heritage Fund were retained and reinvested in the Fund. Since then, all of the net investment income earned by the Heritage Fund has been transferred to the General Revenue Fund to help meet budgetary needs. The Heritage Fund's net income is estimated at $1,300 million in 1987-88.

Capital Projects Division Estimates total $140 million in 1987-88 and will support 13 ongoing capital projects. These projects include the continued development and expansion of irrigation in southern Alberta, the upgrading of private telephone line service for rural Albertans, parks, land reclamation, grazing reserves, health care facilities and research in areas such as agriculture, occupational health and safety, oil sands development and cancer treatment.

Table B1 presents estimates of the Heritage Fund's sources and applications of funds in 1987-88. For comparative purposes, the data for the previous two fiscal years are also included in the table.

Alberta Heritage Savings Trust Fund

TABLE B1

Source and Application of Funds

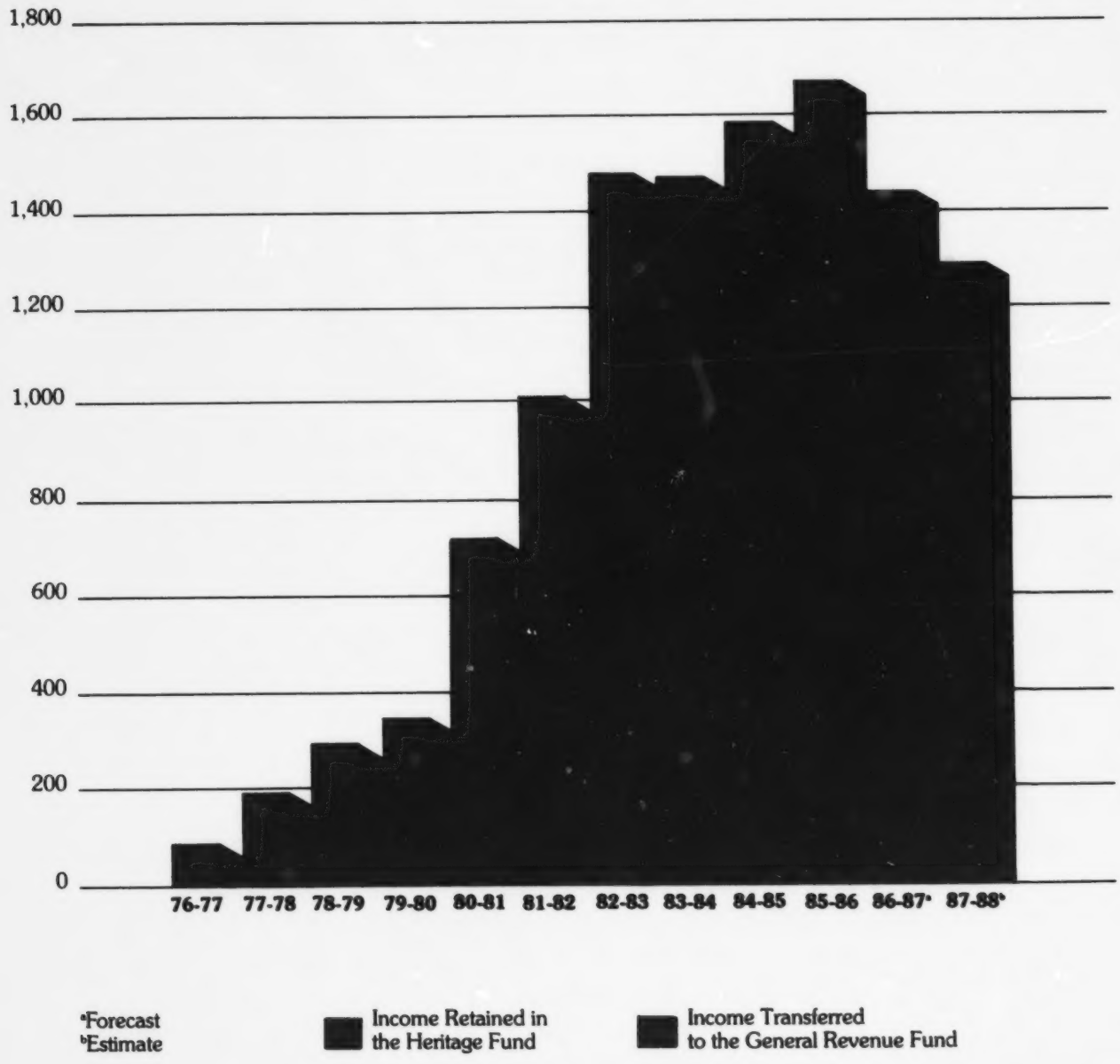
(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast	1986-87 Estimate	1985-86 Actual
Source of Funds				
Non-Renewable Resource Revenue Transfer	—	244,000	405,000	684,637
Net Investment Income	1,300,000	1,445,000	1,460,000	1,668,309
Transfer of Net Income to General Revenue Fund	(1,300,000)	(1,445,000)	(1,460,000)	(1,666,863)
Repayments, Maturities and Disposals*	1,307,400	612,000	589,900	345,146
Provision for Non-Cash Items and Administrative Expenses	48,000	52,000	(3,000)	(62,215)
	1,355,400	908,000	991,900	969,014
Application of Funds				
Capital Projects Division	140,400	222,600	236,200	240,088
Alberta Investment Division				
Alberta Agricultural Development Corporation	75,000	—	149,500	109,000
Alberta Mortgage and Housing Corporation	200,000	188,000	188,000	185,000
Alberta Opportunity Company	63,000	33,000	33,000	34,000
Total Provincial Corporations	338,000	221,000	370,500	328,000
Other Investments	111,600	58,500	18,800	24,560
Total Alberta Investment Division	449,600	279,500	389,300	352,560
Commercial Investment Division	27,200	23,800	18,100	16,030
Increase in Marketable Securities at Cost	738,200	382,100	348,300	360,336
	1,355,400	908,000	991,900	969,014

* Excludes Marketable Securities.

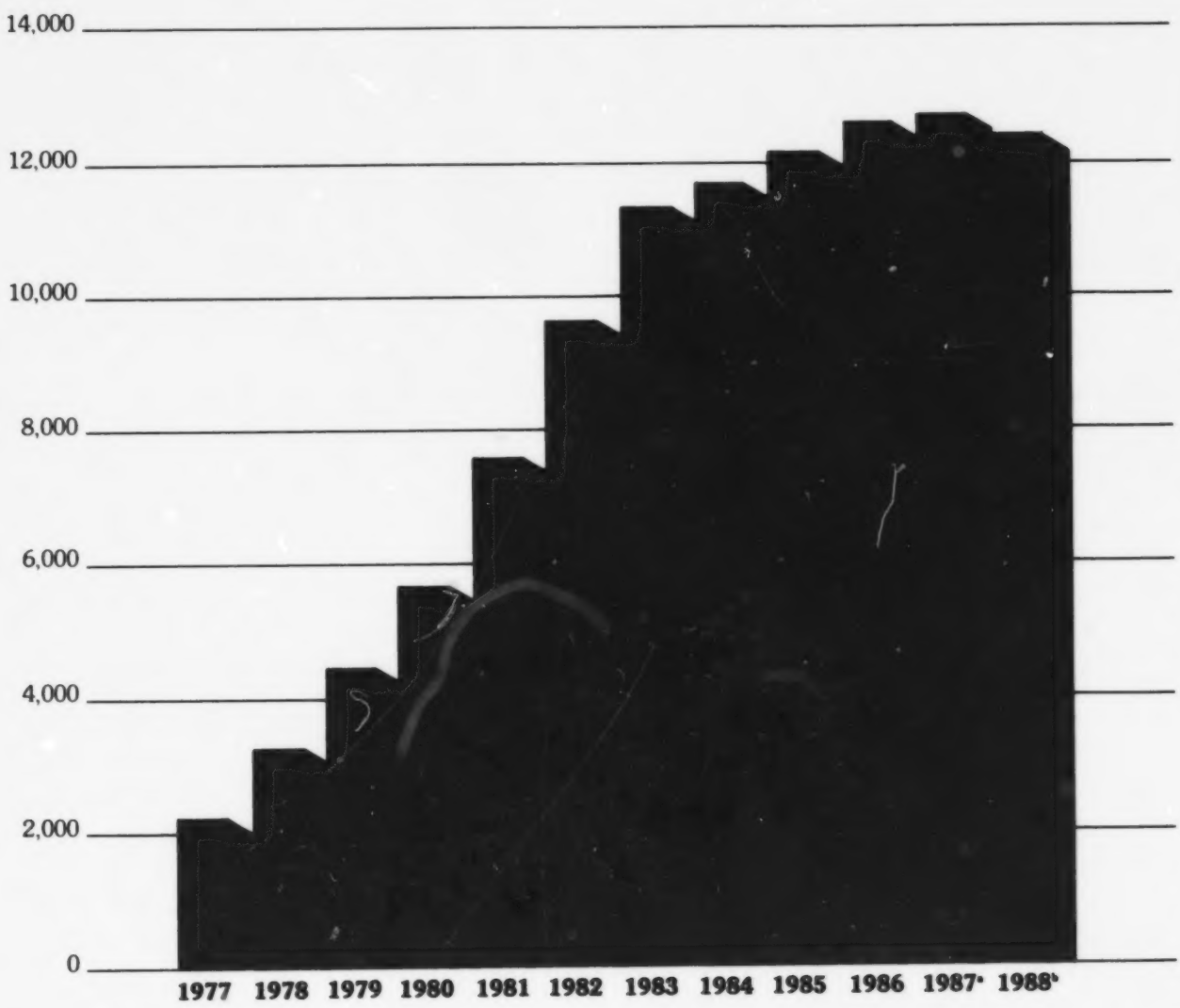
Alberta Heritage Savings Trust Fund Net Income
(millions of dollars)

CHART B1



Alberta Heritage Savings Trust Fund Financial Assets
(millions of dollars)

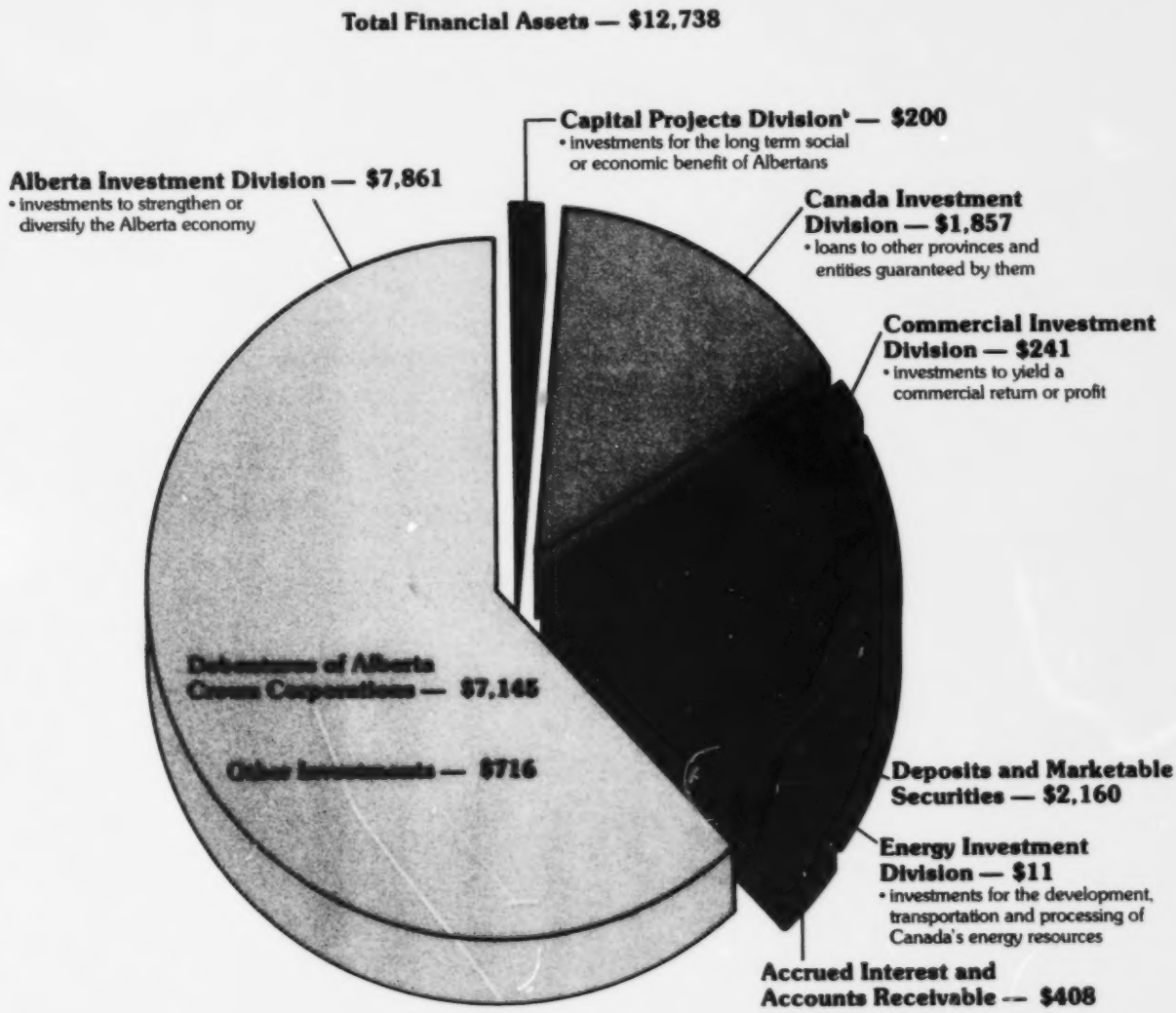
CHART B2



Years ending March 31

•Forecast
ᵇEstimate

Composition of Alberta Heritage Savings Trust Fund Financial Assets at March 31, 1987[a]
(millions of dollars)
CHART B3


Total Financial Assets — $12,738
Capital Projects Division[b] — $200
• investments for the long term social or economic benefit of Albertans
Alberta Investment Division — $7,861
• investments to strengthen or diversify the Alberta economy
Canada Investment Division — $1,857
• loans to other provinces and entities guaranteed by them
Commercial Investment Division — $241
• investments to yield a commercial return or profit
Deposits and Marketable Securities — $2,160
Energy Investment Division — $11
• investments for the development, transportation and processing of Canada's energy resources
Accrued Interest and Accounts Receivable — $408

[a]Forecast
[b]Total forecast investment under the Capital Projects Division amounts to $2,825 million, of which $2,625 million are deemed assets.

Appendix C

Other Major Regulated Funds

Tables and Charts

Tables

C1 Alberta Capital Fund, Source and Application of Funds 49

C2 Alberta Farm Credit Stability Fund, Source and Application of Funds 52

C3 Alberta Small Business Term Assistance Fund, Source and Application of Funds 52

Charts

C1 How the Capital Fund Works 50

C2 How the Farm Credit Stability and Small Business Term Assistance Funds Work 53

Other Major Regulated Funds

This appendix provides information on the Capital Fund and funds established for the operation of the Alberta Farm Credit Stability Program and the Alberta Small Business Term Assistance Plan.

Capital Fund

The Capital Fund was established by the Financial Administration Amendment Act, 1986 to enable the province to pay the construction costs of major public facilities over a period of years. The Capital Fund borrows the amount required to finance approved construction projects and receives annual departmental appropriations from the General Revenue Fund calculated to fund projects over their useful lives. The interest costs of the borrowings are included within Treasury's statutory budgetary expenditure provision for debt servicing.

The 1986-87 Capital Fund estimate of $333 million is expected to be underspent by approximately $71 million as a result of project delays and the government's November 1986 expenditure freeze. At March 31, 1987 the Capital Fund is expected to have debt outstanding of $262 million. For 1987-88 the projects financed through the Capital Fund will be expanded from hospitals, nursing homes and post-secondary education facilities to include the Oldman River Dam. In 1987-88 expenditure of $317 million is expected to be made from the fund.

Details of the projects contained within each of the above categories can be found in the "1987-88 Capital Fund Estimates" and the "1987-88 Government Estimates and Capital Fund Estimates, Supplementary Information – Element Details".

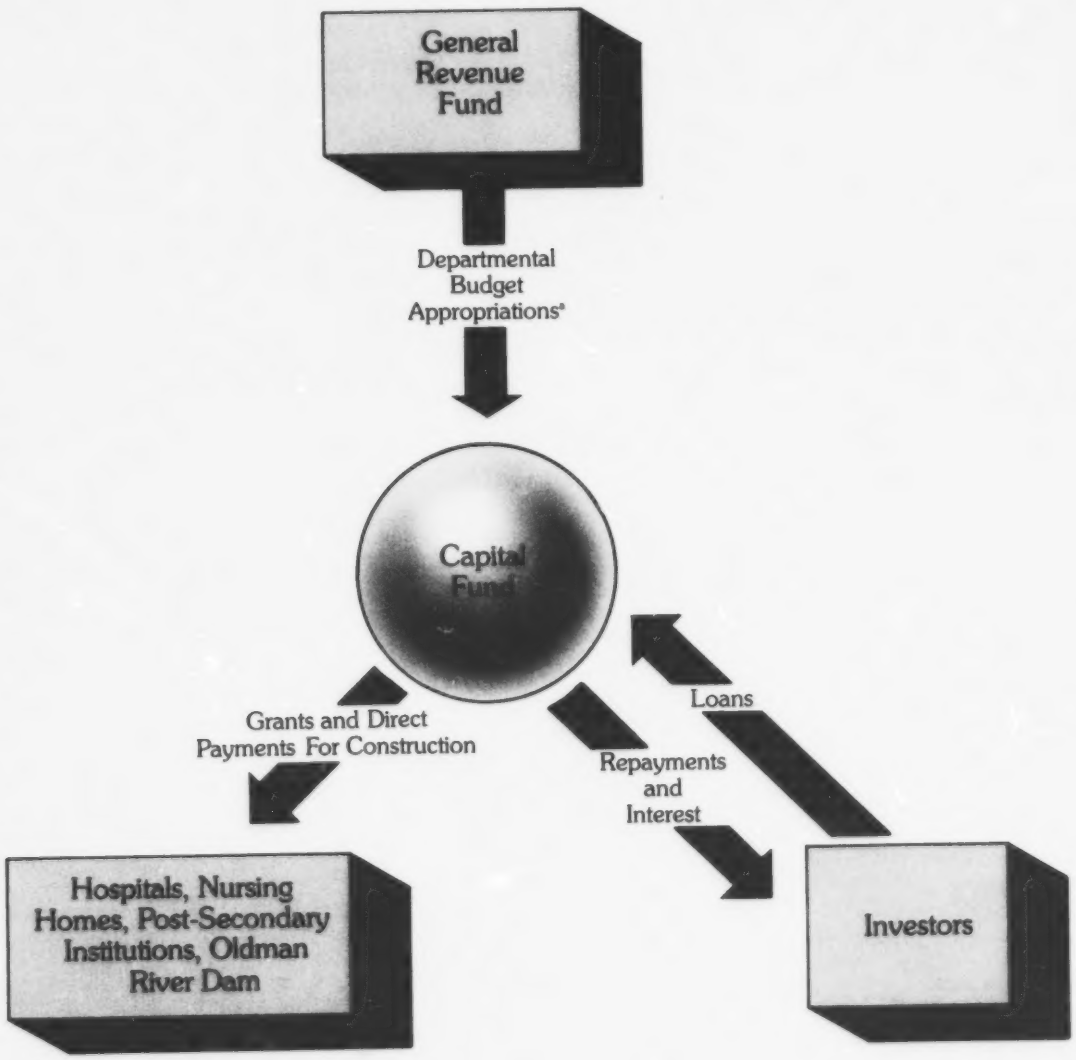
Alberta Capital Fund
Source and Application of Funds
(thousands of dollars)

TABLE C1

	1987-88 Estimate	1986-87 Forecast
Source of Funds		
Grants from the General Revenue Fund		
Voted Appropriations for Debt Repayment	27,843	12,000
Debt Servicing Costs	36,000	6,000
Debt Issues (net)	289,565	262,000
	353,408	280,000
Application of Funds		
Capital Expenditure		
Post-Secondary Education Facilities	45,340	31,000
Oldman River Dam	36,800	—
Hospitals and Nursing Homes	235,268	231,000
	317,408	262,000
Debt Servicing Costs	36,000	6,000
Increase in Cash and Receivables	—	12,000
	353,408	280,000

How the Capital Fund Works

CHART C1



*Equal to:
- payments from program departments to fund projects over their useful lives, plus
- a statutory appropriation from Treasury to pay interest and other costs of debt.

Alberta Farm Credit Stability Program and Alberta Small Business Term Assistance Plan

The Alberta Farm Credit Stability Program was established on August 6, 1986 to facilitate the provision of long-term fixed rate financing to Alberta farmers. The province is supporting up to $2 billion of farm financing at a fixed 9% annual rate of interest for a maximum of 20 years. Farm loans of up to $200,000 per farm family and $600,000 per farm business are available for refinancing existing debt and making new purchases. Loans are available until June 30, 1989 or until $2 billion has been loaned under the program, whichever is earlier. In excess of $1.5 billion of long-term fixed rate financing has been authorized for Alberta farmers.

The Alberta Small Business Term Assistance Plan was established on September 9, 1986 to make long-term fixed rate financing available to Alberta small businesses. Small business loans have a fixed 9% annual rate of interest and a maximum term of 10 years. Loans of up to $150,000 per small business were available for refinancing existing debt and making new purchases. Applications for small business loans totaling approximately $1 billion were received during the period when applications were being accepted.

These two programs are being delivered through participating chartered banks and credit unions and through Treasury Branches. The province is sharing the risk of loans made under the two programs by providing partial guarantees to the lenders. These partial guarantees assist farmers or small businesses to obtain loans where credit risk is beyond normal lending practices.

The province maintains deposits with lending institutions equal to the amount of program loans they have outstanding. Of the total cash requirements for the two programs, it is estimated that about 63% of the requirements will occur in 1986-87 and 37% in 1987-88. Two-thirds of the proceeds from Alberta's $750 million U.S. fixed rate Euromarket issue in November 1986 are being used to finance these two programs. On an interim basis, the province has also borrowed from the Heritage Fund to make such deposits.

The statutory appropriation from the General Revenue Fund for these two programs is for the deficits of their associated funds. The deficits consist of the sum of payments made to the lending institutions for their administrative costs plus or minus, as appropriate, any difference between interest paid on borrowed funds and that earned on deposits. This statutory appropriation for 1987-88 is estimated at $35 million for the Farm Credit Stability Program and $17 million for the Small Business Term Assistance Plan.

Alberta Farm Credit Stability Fund
Source and Application of Funds
(thousands of dollars)

TABLE C2

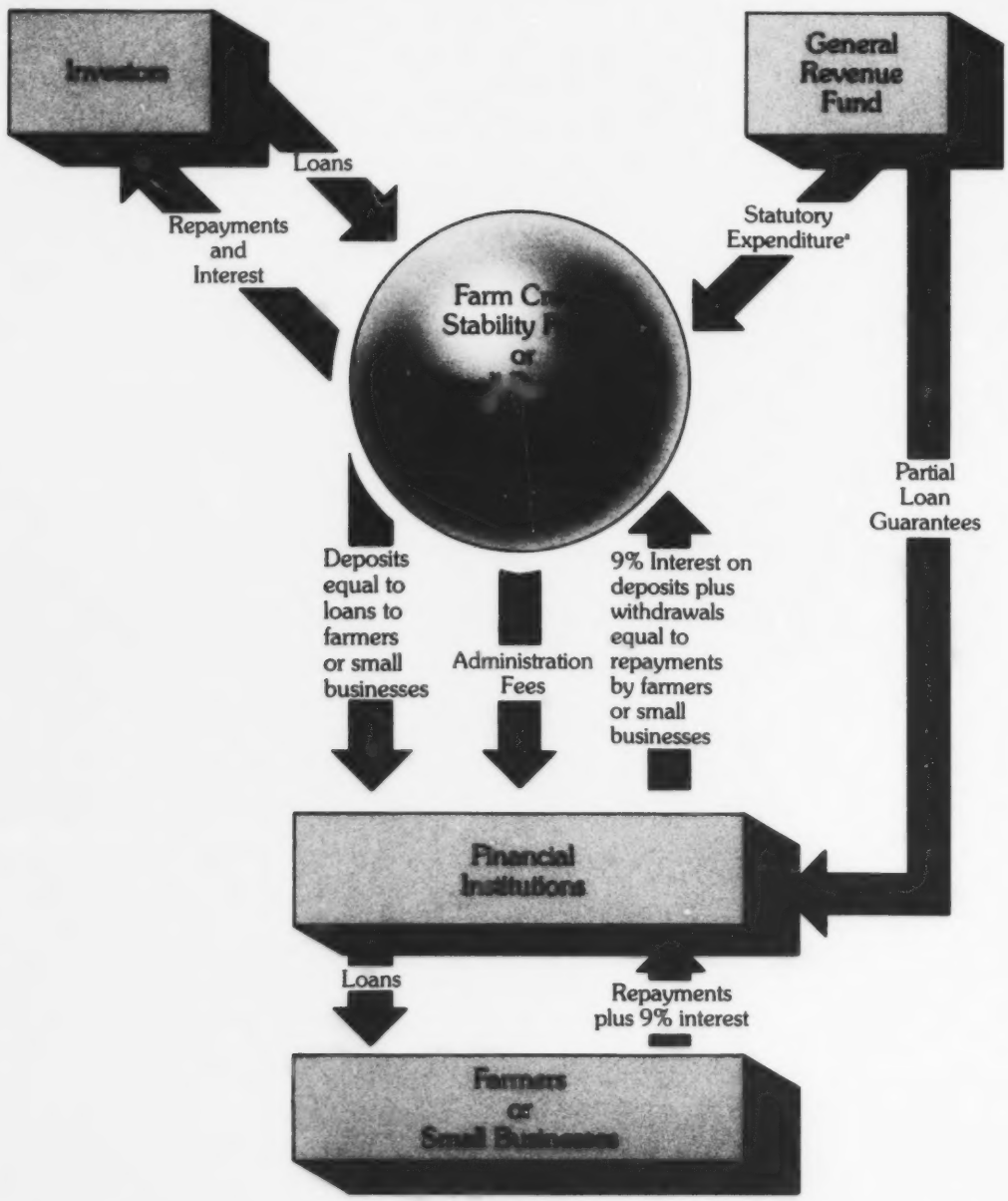
	1987-88 Estimate	1986-87 Forecast
Source of Funds		
Statutory Appropriation from the General Revenue Fund	35,000	13,000
Debt Issues (net)	837,000	1,162,000
Repayment of Deposits	28,000	2,000
	900,000	1,177,000
Application of Funds		
Operating Deficit before Statutory Appropriation	35,000	13,000
Deposits with Financial Institutions	858,000	1,140,000
Increase in Cash and Receivables	7,000	22,000
	900,000	1,177,000

Alberta Small Business Term Assistance Fund
Source and Application of Funds
(thousands of dollars)

TABLE C3

	1987-88 Estimate	1986-87 Forecast
Source of Funds		
Statutory Appropriation from the General Revenue Fund	17,000	5,000
Debt Issues (net)	205,000	610,000
Repayment of Deposits	98,000	2,000
	320,000	617,000
Application of Funds		
Operating Deficit before Statutory Appropriation	17,000	5,000
Deposits with Financial Institutions	298,000	602,000
Increase in Cash and Receivables	5,000	10,000
	320,000	617,000

How the Farm Credit Stability and Small Business Term Assistance Funds Work **CHART C2**



[a]To pay for administration fees plus or minus, as appropriate, any difference between interest paid on borrowed funds and that earned on deposits.

[b]The two funds are operated separately but identically.

Appendix D

Provincial Crown Corporation Capital Budgets

Tables

D1 Heritage Fund Investment in Provincial Crown Corporations 57
D2 Alberta Agricultural Development Corporation 59
D3 Alberta Mortgage and Housing Corporation 61
D4 Alberta Opportunity Company 63
D5 Alberta Municipal Financing Corporation 65

Provincial Crown Corporation Capital Budgets

The 1987-88 capital budgets and financing requirements of four major provincial Crown corporations are contained in this appendix: Alberta Agricultural Development Corporation, Alberta Mortgage and Housing Corporation, Alberta Opportunity Company and Alberta Municipal Financing Corporation. The first three of these corporations receive direct support from the General Revenue Fund enabling them to deliver their programs to Albertans at less than full cost. Details of these contributions can be found in the 1987-88 Estimates of Expenditure.

Heritage Fund Investment in Provincial Crown Corporations **TABLE D1**
(thousands of dollars)

	Balance at March 31, 1988 Estimate	Investments Estimate	Repayments Estimate	Balance at March 31, 1987 Forecast
Alberta Agricultural Development Corporation	1,061,600	75,000	28,400	1,015,000
Alberta Mortgage and Housing Corporation	3,406,000	200,000	190,000	3,396,000
Alberta Opportunity Company	180,400	63,000	38,600	156,000
Alberta Municipal Financing Corporation	825,000	—	455,000	1,280,000
Alberta Government Telephones Commission	1,098,000	—	200,000	1,298,000
Total	6,571,000	338,000	912,000	7,145,000

Alberta Agricultural Development Corporation

The Alberta Agricultural Development Corporation provides loans and loan guarantees to farmers and agribusinesses. The corporation's programs are designed to foster the establishment, maintenance and productivity of family farms and to encourage local processing of the province's agricultural products.

During 1987-88 the corporation estimates that it will extend $75 million in direct loans to agricultural producers and agribusinesses. Direct loans are made at preferred rates of interest and some borrowers are eligible for incentive rebates of part of their interest costs.

The corporation's largest program is the Beginning Farmer Program, which makes loans and incentive rebates to individuals whose farms are in an early stage of development. Loans under this program are expected to total $67 million in 1987-88. Other direct farm and agribusiness loans are estimated to amount to $8 million. Also, the corporation estimates that it will provide $101 million in loan guarantees to farmers and agribusinesses. To finance these activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $75 million in debentures of the corporation in 1987-88.

In order to provide incentive rebates and interest shielding to its borrowers and to cover operating expenses in 1987-88, the corporation will receive a budgetary appropriation of $55.8 million through the Department of Agriculture.

Alberta Agricultural Development Corporation

TABLE D2

(thousands of dollars)

	1987-88 Estimate	1986-87 Forecast
Programs		
Direct Lending:		
Beginning Farmer Loans	67,000	63,000
Developing Farmer Loans	5,000	4,000
Agribusiness Loans	3,000	2,000
Total Direct Lending	75,000	69,000
Loan Guarantees:		
General Guarantee Agreements		
Alberta Farm Development Loans	80,000	78,000
Farm Development Loans	8,000	8,000
Specific Guarantee Agreements		
Farm Loans	8,200	7,100
Agribusiness Loans	5,000	4,000
Total Guarantees	101,200	97,100
Financing		
Cash Required for:		
Programs	86,000	73,400
Debenture repayments	28,400	26,000
Total Cash Requirements	114,400	99,400
Sources of Financing:		
Loan repayments and guarantee recoveries	36,000	24,600
Alberta Heritage Savings Trust Fund	75,000	—
Operations	3,400	74,800
Total Sources	114,400	99,400

Alberta Mortgage and Housing Corporation

The Alberta Mortgage and Housing Corporation's programs involve construction of rental housing units for senior citizens and low to middle income Albertans, and mortgage financing to provide affordable rental and ownership housing in the private market for low to middle income Albertans.

Capital commitments for mortgage lending programs are expected to total $40 million for 2,610 units in 1987-88. A further $24.8 million is available for commitment to housing construction and land development programs.

Under a new mortgage lending program, the corporation will provide subsidized mortgages to non-profit groups to develop special housing for select client groups such as mentally and physically disabled persons, victims of family violence, young offenders and other people with special housing needs. Under this Special Purpose Program, the corporation will commit $5.1 million to build approximately 125 units in 1987-88.

The Alberta Family Home Purchase Program provides subsidized mortgages to low and middle income home purchasers. Under this program, the corporation will commit $22.1 million in 1987-88 to provide 480 mortgage loans for the purchase of corporation-owned homes throughout Alberta.

The corporation also expects to insure mortgages made available by private lenders on 1,750 mobile homes.

Through its housing construction programs, the corporation is expected to make commitments of $18.1 million for 249 senior citizens units in 1987-88. These include apartments for self-sufficient senior citizens and lodge accommodation for seniors who are healthy and active but who no longer wish to maintain an independent household.

To finance the corporation's activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $200 million in debt securities of the corporation.

In addition to its capital funding for 1987-88, the corporation will receive a budgetary appropriation of $240.8 million through the Department of Municipal Affairs to meet subsidy and operating costs. The subsidies available through the corporation's programs help make rental housing affordable for over 22,000 senior citizens and 9,900 lower income families and provide mortgage subsidies for over 3,000 lower income homeowners.

Alberta Mortgage and Housing Corporation

TABLE D3

(thousands of dollars)

	1987-88 Estimate	(# units)	1986-87 Forecast	(# units)
Mortgage Lending Division				
Alberta Family Home Purchase Program	22,100	480	17,500	420
Rural and Native Housing	7,400	115	8,100	125
Mortgage Insurance – Mobile Homes	—	1,750	—	1,750
Modest Apartment	3,200	140	1,800	70
Special Purpose Program	5,100	125	5,100	125
Revolving Trunk Servicing	2,200	—	—	—
Total Mortgage Lending	40,000	2,610	32,500	2,490
Land and Housing Division				
Staff Housing	900	12	700	7
Community Housing	2,150	28	9,700	121
Senior Citizens' Lodges	6,200	90	10,900	160
Senior Citizens' Self-Contained	11,900	159	25,400	308
Transitional Housing	—	—	400	5
Rent Supplement	—[a]	125	—	85
Residential Land	3,500	—	3,000	—
Industrial Land	100	—	—	—
Total Land and Housing	24,750	414	50,100	686
Total Programs	64,750	3,024	82,600	3,176
Financing				
Cash Required for:				
Capital programs	91,800		89,000	
Debenture repayments	200,700		192,900	
Redemption of short-term notes (net)	—		25,000	
Operations	—		36,000	
Total Cash Requirements	292,500		342,900	
Sources of Financing				
Mortgage repayments	74,300		140,900	
Land sales	8,000		6,000	
General Revenue Fund budgetary appropriation for debt retirement[b]	9,200		8,900	
Advances from the General Revenue Fund (net)	1,000		(900)	
Alberta Heritage Savings Trust Fund	200,000		188,000	
Total Sources	292,500		342,900	

[a] $315,000 in operating costs included in Vote 10, Department of Municipal Affairs.

[b] Included in Vote 10, Department of Municipal Affairs.

Alberta Opportunity Company

The Alberta Opportunity Company provides loans, loan guarantees and financial guidance to small businesses throughout the province in order to promote the growth and diversification of the provincial economy. The company provides alternative financing to Alberta businesses with priority given to businesses located outside the major centres.

The company expects to make $30 million in direct loan commitments to small Alberta businesses in 1987-88. Also, in broadening its range of financing alternatives, the company estimates that it will provide $15 million for creative financing in 1987-88 by providing patient capital to Alberta businesses which are unable to obtain such funding on reasonable terms and conditions elsewhere.

To finance this lending activity and to repay debentures issued in previous years, the Legislature will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $63 million in debentures of the company.

The company will also receive a budgetary appropriation of $13.3 million from the Department of Economic Development and Trade in 1987-88. These funds will enable the company to deliver its lending programs at less than their full cost.

Alberta Opportunity Company

(thousands of dollars)

TABLE D4

	1987-88 Estimate	1986-87 Forecast
Commitments		
Direct Lending	30,000	28,000
Creative Financing	15,000	—
Loan Guarantees	2,000	2,000
Total Commitments	47,000	30,000
Financing		
Cash Required for:		
Direct lending	45,000	28,700
Debenture repayments	38,600	39,800
Operations	10,500	7,500
Total Cash Requirements	94,100	76,000
Sources of Financing:		
Grant from the General Revenue Fund	13,300	13,400
Loan repayments	21,800	25,600
Alberta Heritage Savings Trust Fund	63,000	33,000
Short-term notes (net)	(4,000)	4,000
Total Sources	94,100	76,000

Alberta Municipal Financing Corporation

The Alberta Municipal Financing Corporation makes loans to municipalities, school systems and hospitals at interest rates based on its cost of obtaining funds. The corporation's borrowers benefit from its access to the Canada Pension Plan Investment Fund and from a provincial government guarantee of the corporation's borrowings.

In the 1987 calendar year, the corporation expects to lend $340 million to Alberta municipalities, school districts and hospital boards, compared to $337 million in 1986. This 1987 lending activity will be financed by borrowing an estimated $367 million from the Canada Pension Plan Investment Fund.

Through the Municipal Debenture Interest Rebate Program, which is funded by a budgetary appropriation of the Department of Municipal Affairs, the government will provide municipalities with grants totalling $97.5 million to reduce effective interest costs on many of the corporation's outstanding loans.

Alberta Municipal Financing Corporation

TABLE D5

(thousands of dollars)

	1987 Estimate	1986 Actual
Programs		
Direct Lending:		
Municipal Loans	208,000	169,554
School Loans	130,000	166,834
Hospital Loans	2,000	800
Total Direct Lending	340,000	337,188
Financing		
Cash Required for:		
Direct lending	340,000	337,188
Debt repayment including sinking fund contributions	637,000	330,099
Other	27,000	61,520
Total Cash Requirements	1,004,000	728,807
Sources of Financing:		
Loan repayments	267,000	239,577
From sinking fund on debt retirement	370,000	93,585
Canada Pension Plan Investment Fund	367,000	395,645
Total Sources	1,004,000	728,807

Appendix E

Fiscal Trends and Medium-Term Strategy

Tables and Charts

Tables

E1 Medium-Term Fiscal Plan 79

Charts

E1 Annual Surplus or Deficit 70
E2 Combined Revenue and Expenditure 71
E3 Combined Expenditure by Major Function 72
E4 Combined Expenditure by Major Object 73
E5 Combined Revenue by Source 74
E6 Average Net Crown Royalty Rate 75
E7 Provincial Annual Deficits Per Capita, 1986-87 76
E8 Fiscal Projection with No Policy Change 77
E9 Combined Annual Deficit 79

Fiscal Trends and Medium-Term Strategy

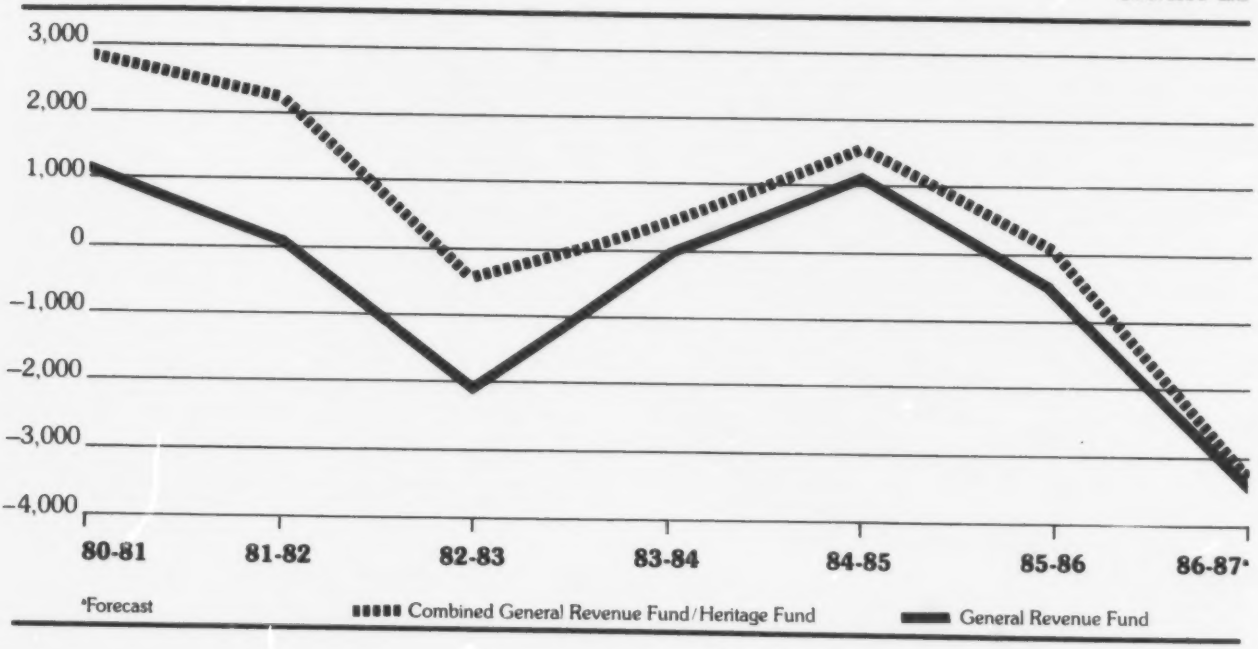
This appendix provides a review of recent trends and developments in the province's finances. It also outlines the consequences of failing to act decisively to reduce the deficit and summarizes the government's medium-term fiscal strategy.

To give a clear picture of Alberta's fiscal experience, a "combined" presentation is used. Although not as comprehensive as the consolidated approach used in the public accounts, the combined presentation brings together the General Revenue Fund and the Alberta Heritage Savings Trust Fund. It provides a more complete picture than would be gained by focusing on the General Revenue Fund alone.

Combined revenue equals the revenue of the General Revenue Fund plus the annual income of the Heritage Fund. Using combined revenue for year-to-year comparisons eliminates the need to keep track of changes in the transfer of resource revenue and investment income between the two funds. Combined expenditure equals expenditure of the General Revenue Fund plus the expenditure of the Heritage Fund Capital Projects Division.

Annual Surplus or Deficit
(millions of dollars)

CHART E1



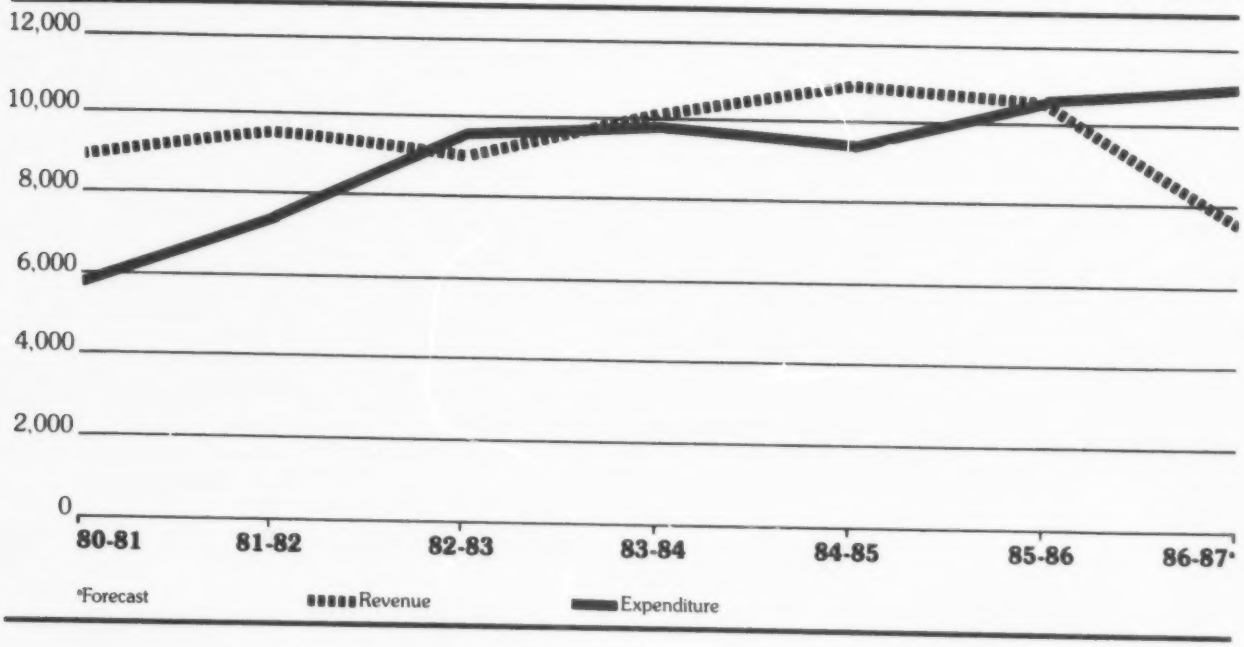
The annual difference between the General Revenue Fund and combined positions represents much of the fiscal flexibility the government has had from time-to-time by virtue of the Heritage Fund. This flexibility has been used to help cope with the downward trend in the fiscal situation over the past few years. Prior to 1982-83, the investment income of the Heritage Fund was retained by the Heritage Fund and 30% of the province's resource revenue was transferred to the Heritage Fund.

In 1982 Alberta was hit simultaneously by the full effect of the National Energy Program, record high interest rates and the effects of a world recession. To counteract these developments, the Alberta Economic Resurgence Plan was put into effect in April 1982. To help support these programs, all Heritage Fund investment income was directed to the General Revenue Fund beginning in September 1982. Starting in April 1983, the portion of resource revenue transferred to the Heritage Fund was reduced from 30% to 15%. These measures decreased the annual budgetary deficits of the General Revenue Fund by about $2 billion from what they otherwise would have been each year from 1983-84 to 1986-87. Growth in Heritage Fund financial assets between March 31, 1983 and March 31, 1987 was just above the rate of inflation.

With the decline in resource revenue in 1986-87, the income of the Heritage Fund (i.e., the 15% non-renewable resource revenue transfer) and its expenditure (i.e., the Capital Projects Division) were roughly equal. As a result, the General Revenue Fund deficit and the combined deficit were virtually the same. While Heritage Fund assets were not actually liquidated, the debt incurred to finance the deficit had the same effect. The 1986-87 decline in the net asset position would have been the same under either strategy. In other words, the readily available flexibility provided by the Heritage Fund was fully used.

Combined Revenue and Expenditure
(millions of dollars)

CHART E2



Changes to Heritage Fund transfer policies cannot provide a long-term solution to the underlying fundamentals of poor revenue growth and a rapidly rising expenditure base. In 1986-87 provincial government per capita expenditure in Alberta was about 60% higher than in Ontario and approximately 32% higher than the all-province average.

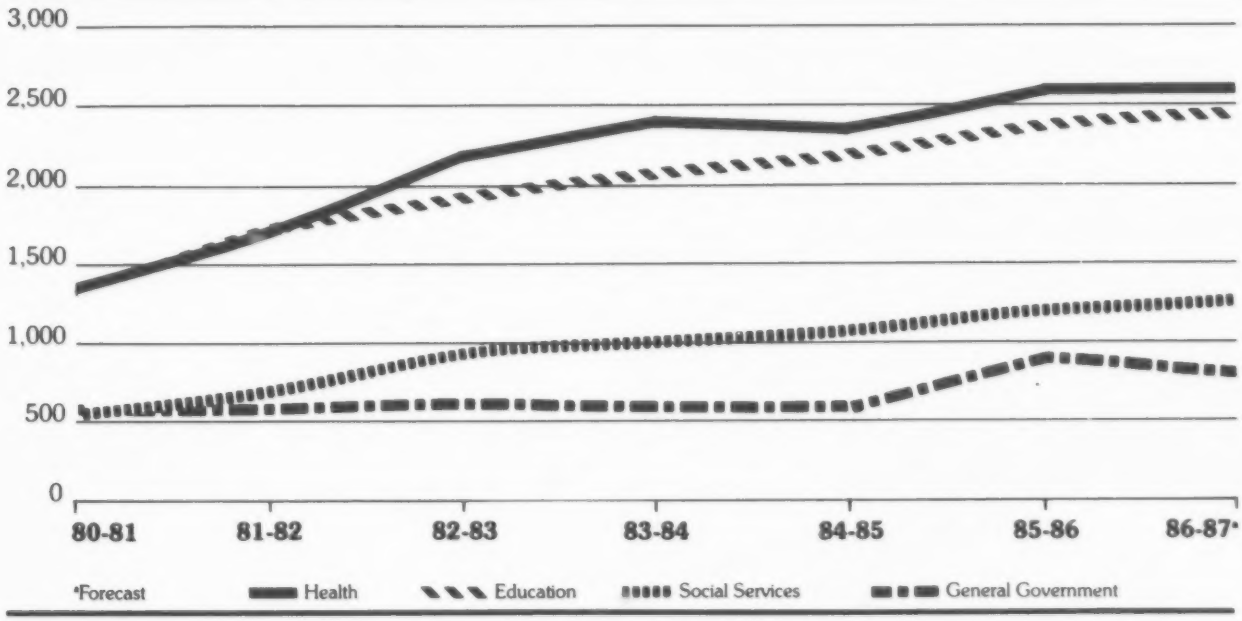
Between 1980-81 and 1982-83, combined expenditure grew by 63% due to increased capital construction and the introduction of the Alberta Economic Resurgence Plan. As a result of government restraint, expenditure growth slowed substantially to 2.6% in 1983-84. Spending actually declined by 3.8% in 1984-85, aided by the completion of the Alberta Economic Resurgence Plan. In 1985-86 combined expenditure increased 13.6% due largely to higher expenditure in the area of resource conservation and economic development (particularly assistance to the agricultural sector) and to a lesser extent in social programs.

In the period immediately before the oil price break, that is, between 1980-81 and 1985-86, combined expenditure grew at an average annual rate of 12.8%. In contrast, combined revenue grew at 3.8% per year on average. It is evident that the need to adjust spending was developing before the major world oil price drop in 1986-87.

Indeed, spending in 1986-87 was relatively restrained. Forecast combined expenditure grew by only 1.9%. However, an unexpectedly dramatic 29% decline in combined revenue makes immediate and significant adjustments mandatory.

Combined Expenditure by Major Function
(millions of dollars)

CHART E3



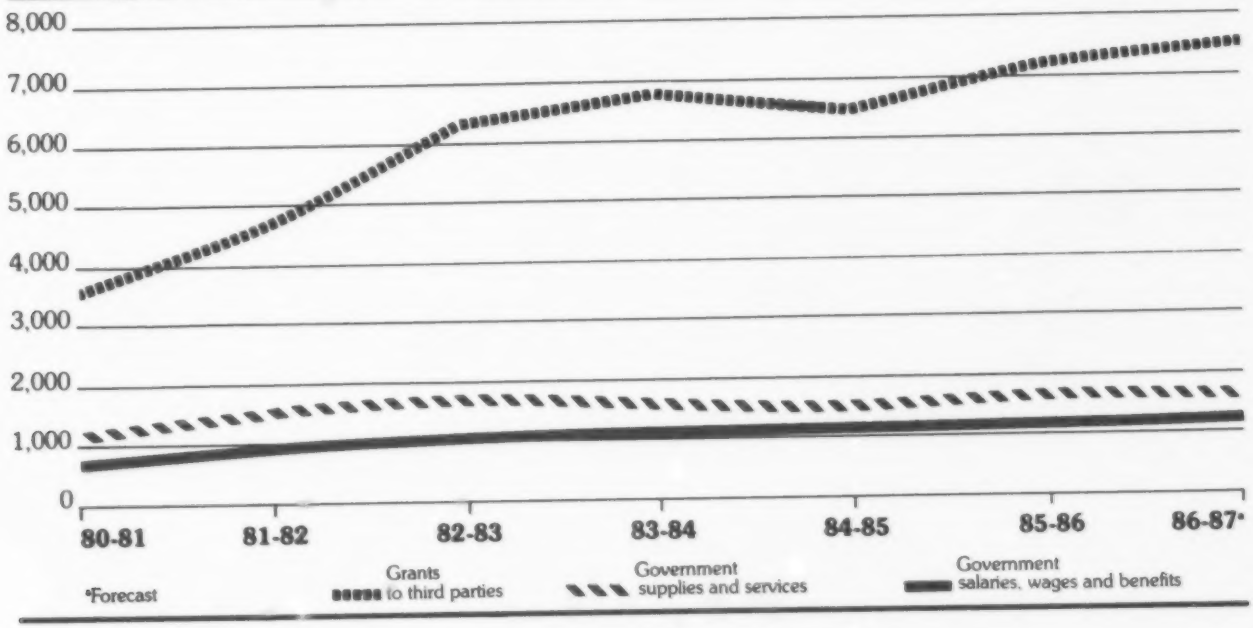
Health, education and social services have been the main sources of expenditure pressure. In 1986-87 health expenditure represented 24% and education 23% of forecast combined expenditure. Social services accounted for an additional 12%.

Between 1980-81 and 1986-87, the growth in spending in these areas, at an average rate of 12.6% per year, outstripped the average annual increase of 8.8% in all other types of spending.

Spending on general government increased at 6.6% yearly on average. From a very low base, debt servicing costs increased at an average rate of 10.4% annually between 1980-81 and 1985-86 before rising five-fold in 1986-87. Even then, debt servicing costs represented less than 2% of total spending.

Combined Expenditure by Major Object
(millions of dollars)

CHART E4

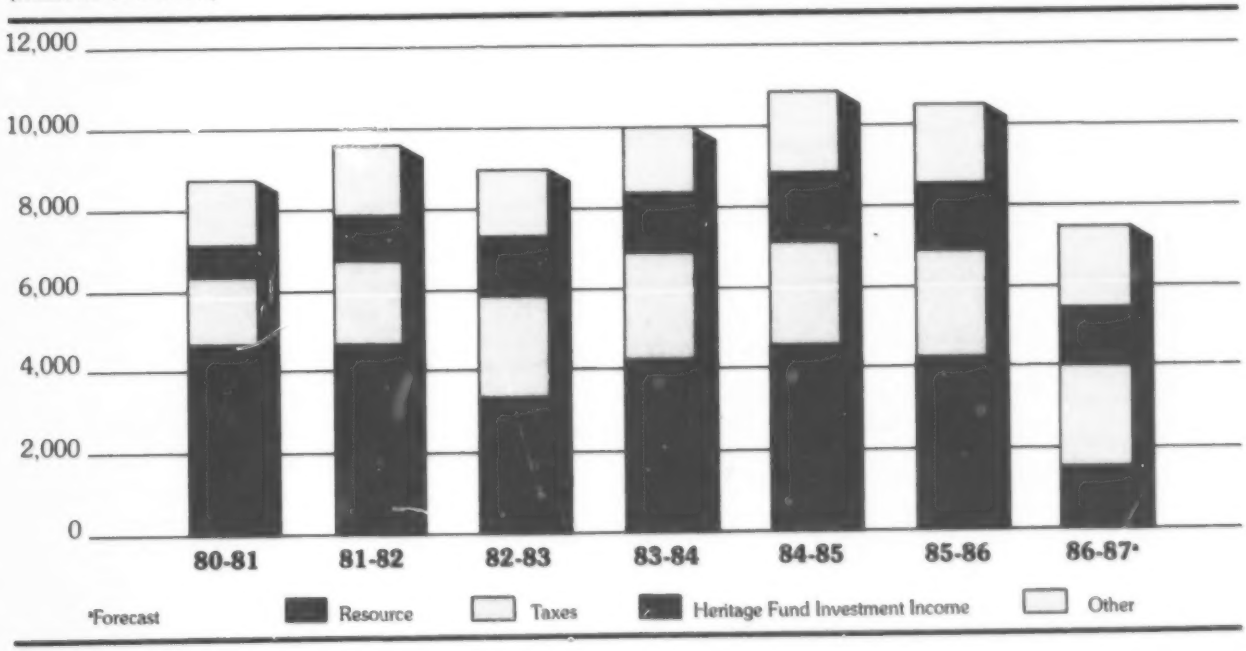


Grants are by far the largest component of combined expenditure and the largest source of expenditure growth. Total grants account for approximately 70% of combined expenditure. Grants for operating support to schools, universities, active treatment hospitals and municipalities represent about 40% of the province's total operating expenditure. The average annual rate of increase in grant expenditure between 1980-81 and 1986-87 was 13.4% compared to growth in non-grant expenditure of 6.2%.

The direct cost of wages, salaries and benefits for government employees represents about 11% of combined expenditure or 13% of operating expenditure. In addition, wages, salaries and benefits account for approximately 80% of the cost of the major health, social and educational programs funded by grants. Many other grants also provide some manpower support. Consequently, about half of operating expenditure is for wages and salaries earned in the public service and provincially funded institutions.

Combined Revenue by Source
(millions of dollars)

CHART E5



The composition of combined revenue changed significantly between 1980-81 and 1986-87. In 1980-81 non-renewable resource revenue accounted for 53% of combined revenue while revenue from taxation was 19%.

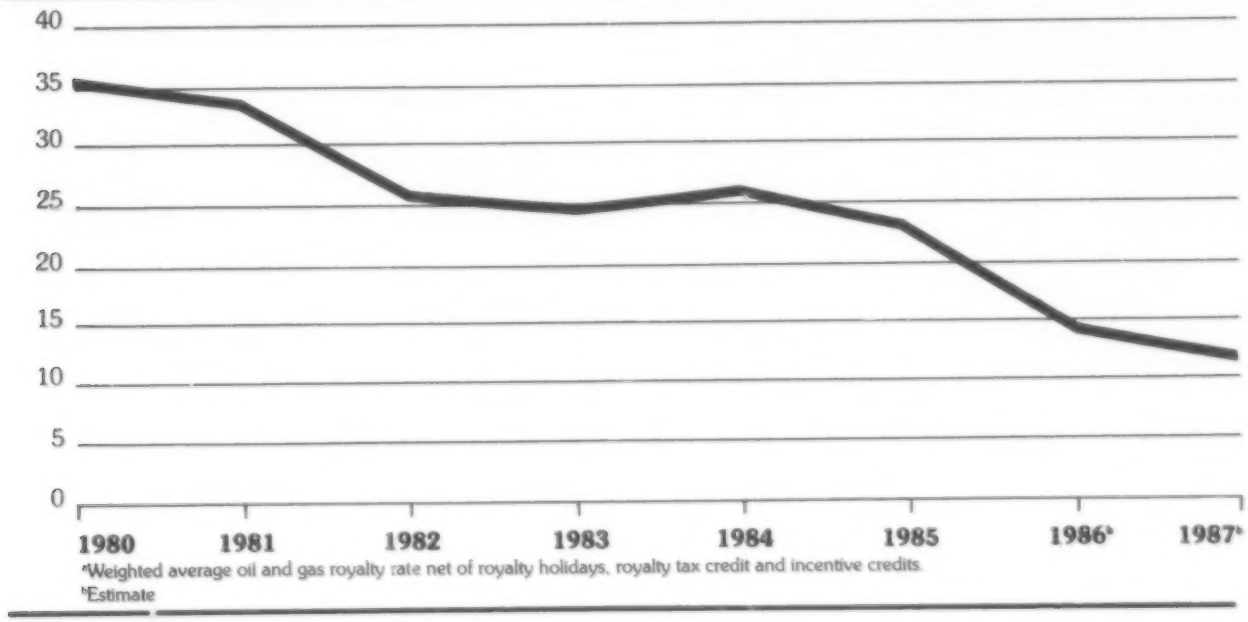
Resource revenue actually declined from $4.7 billion in 1980-81 to $4.3 billion in 1985-86 – despite high oil prices over the period. With the sharp fall in world oil prices in 1986-87, net non-renewable resource revenue declined 64% and contributed only 21% of combined revenue.

From 1980-81 to 1986-87, tax revenue increased by an average of 6.2% per year. Personal tax revenue increased by 11.1% on average, due largely to the January 1, 1984 rate increase from 38.5% to 43.5% of basic federal tax. By 1986-87 total tax revenue accounted for 33% of combined revenue.

The contribution of Heritage Fund investment income to the province's finances grew significantly in size and importance. In 1980-81 it amounted to $724 million or 8% of combined revenue. At $1.4 billion in 1986-87, it provided 19% of combined revenue, rivaling total personal income tax as a source of revenue to the province.

Average Net Crown Royalty Rate[a]
(per cent)

CHART E6



[a]Weighted average oil and gas royalty rate net of royalty holidays, royalty tax credit and incentive credits.
[b]Estimate

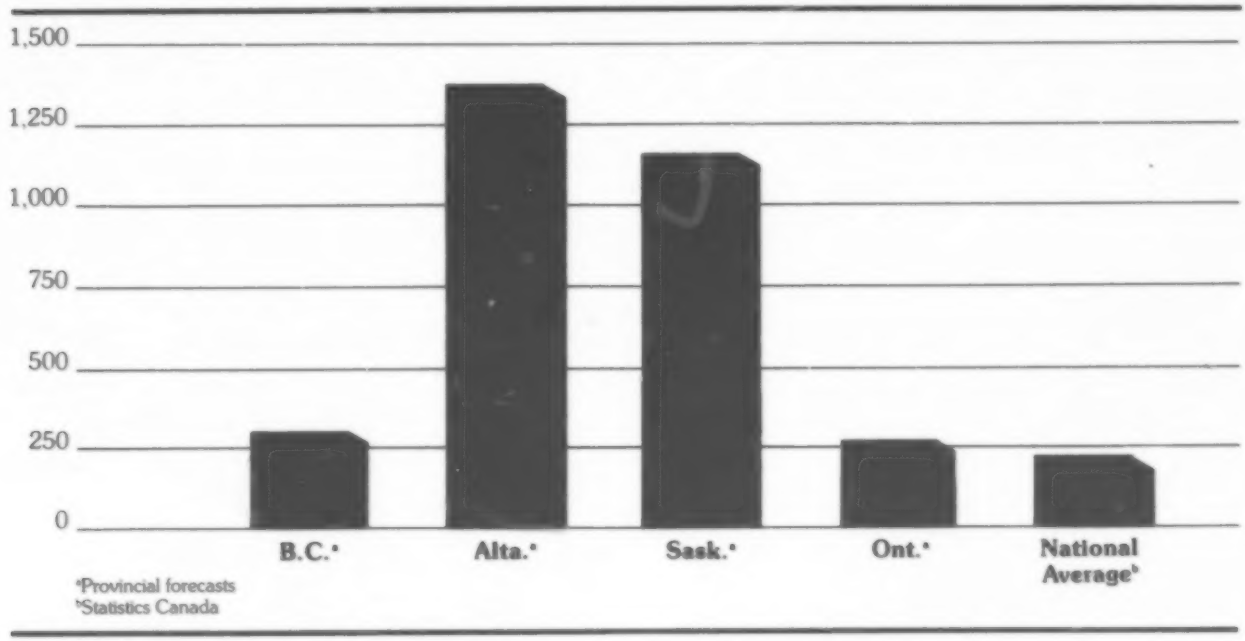
Effective royalty rates are a key factor in explaining the decline in resource revenue. From 1980 to 1987, the average net Crown royalty rate declined from 35% to 12%.

Three major royalty rate and incentive policy changes occurred over recent years. The April 1982 Oil and Gas Activity Program was introduced to offset the effects of the National Energy Program. The June 1985 package passed to industry the benefits of the Western Accord. The October 1986 assistance package was in response to the world oil price decline.

The effective royalty rate decline is also due to a shift in the components of production from conventional "old" oil, with its higher gross royalty rates, to "new" oil and non-conventional oil. For example, in 1986 conventional "old" oil production is estimated to have declined by about 14% from the 1985 level.

Provincial Annual Deficits Per Capita, 1986-87

CHART E7



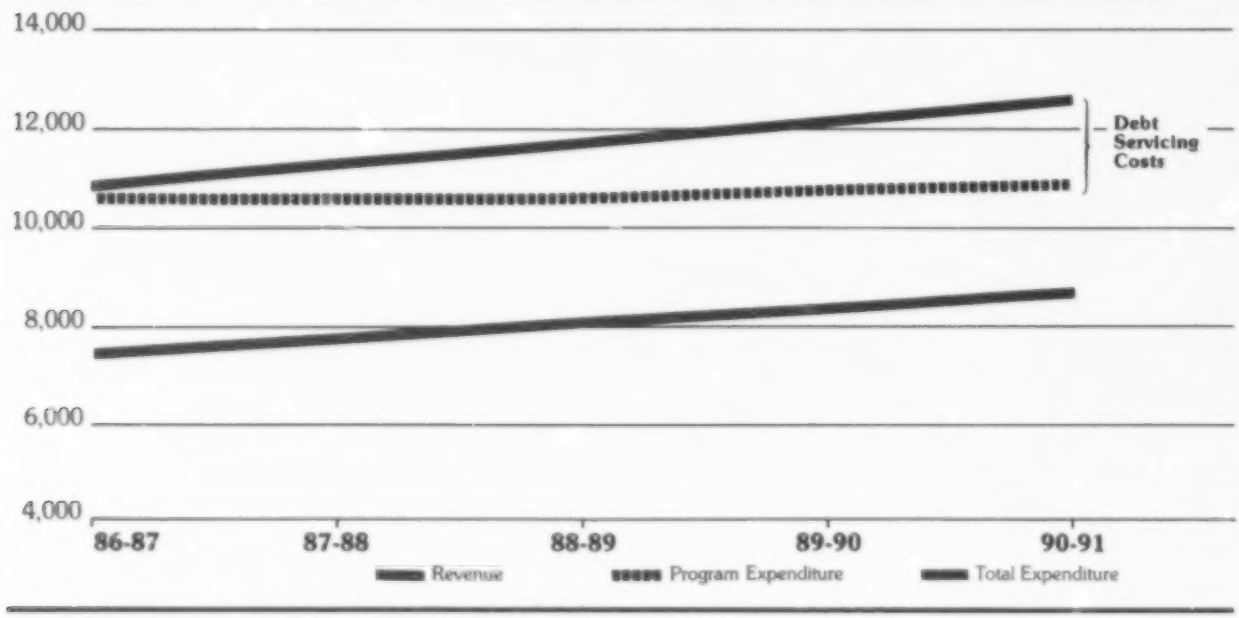
Because of the foresight in establishing the Heritage Fund in 1976-77, Alberta started 1986-87 in an enviable financial position with virtually no debt, a unique and strong net asset position, and substantial unused revenue-raising capacity.

However, the sharp decline in resource revenue in 1986-87 resulted in an annual deficit of $3.3 billion which, on a per capita basis, was the largest in the country. The decisions taken in the 1986-87 budget were appropriate given the need to provide fiscal stability to a provincial economy facing a high degree of uncertainty and marked changes in external circumstances. The province's financial strength made the 1986-87 policy manageable. Only 2.5% of combined revenue was required to service debt. But, deficits of this magnitude cannot be repeated if Alberta is to maintain the fiscal flexibility to deliver quality services and encourage economic growth and diversification.

The legacy of persistent deficits is all too evident in other governments where debt servicing costs are squeezing out program spending. The federal government uses 32% of revenue to pay the interest on its accumulated debt. Similar figures in the provinces range from 5% in British Columbia to 23% in Nova Scotia.

Fiscal Projection with No Policy Change
(millions of dollars)

CHART E8



Without a decisive fiscal strategy to reduce expenditure and increase revenue, Alberta could face a very critical financial situation by the beginning of the next decade, as exemplified in the above chart.

If the world oil price were to increase, say, only at the rate of inflation beyond 1986-87 and expenditure were allowed to grow at the same rate, the annual deficit would grow from $3.3 billion in 1986-87 to $3.9 billion in 1990-91. The increase in debt by the end of the period would be $18 billion, equivalent to almost one and one-half times the current financial assets of the Heritage Fund. Because debt servicing costs would increase dramatically to over 20% of combined revenue, program expenditure would be squeezed out. Indeed, even under the expenditure profile assumed here, expenditure on health, education, social services and other people programs could not rise by more than 1% per year, considerably less than inflation.

This projection is not a forecast; it is meant to depict what could happen. Should world oil prices rebound sharply, the consequences of not adjusting the fiscal stance would be reduced. But Alberta has no control over international energy prices. The consequences of planning on an early return to high world oil prices and being wrong would be severe. A debt cost spiral would be set in motion, dramatically constraining the province's ability to deal with emerging social and economic issues.

Alberta's Fiscal Flexibility

Alberta has built up its financial strength over the last decade and a half. This financial strength will allow Alberta to make the required adjustments, while retaining a very favourable fiscal environment relative to any province in Canada.

- Alberta's reputation for sound, stable financial management is well established.
- Alberta entered 1986-87 virtually free of debt.
- The financial assets of the Heritage Fund are $12.7 billion, the equivalent of about fourteen months' spending; this facilitates borrowing to smooth the adjustment.
- The investment income of the Heritage Fund pays for a significant portion of expenditure and will exceed the royalty collected on natural gas and by-products in 1987-88.
- Alberta has in place an extensive, high quality infrastructure of health facilities, educational institutions, transportation systems, communication networks, recreational facilities and utilities.
- Alberta ends 1986-87 with no sales tax, the lowest personal income tax rate and the most attractive corporate tax structure of any province and, consequently, substantial unused fiscal capacity.

The Fiscal Strategy to 1990-91

- The government's objective is to balance the budget by 1990-91.
- The deficit will be reduced by $1.4 billion or over 40% to $1.9 billion in 1987-88 to avoid dramatic increases in debt servicing costs which, once set in motion, would be very difficult to moderate, much less reverse.
- Until the deficit is eliminated, the province will use its good credit standing, which has been made possible by the Heritage Fund, to borrow and ease the process of adjustment.
- Debt servicing costs will be kept below 10% of revenue.
- The 15% transfer of resource revenue to the Heritage Fund will be suspended. A small portion of the financial assets of the Heritage Fund will be drawn upon to finance the Capital Projects Division.
- Expenditure will be downsized toward per capita spending levels in other provinces. One-half of the adjustment will be made in 1987-88.
- Taxes will be increased in 1987-88 so that, rather than passing debt to future generations, Albertans will pay directly for a greater portion of the services they receive. Nonetheless, Alberta will maintain the lowest overall tax load relative to other provinces.
- The target 1988-89 deficit for planning purposes is approximately $1 billion. If oil prices were to increase only by inflation and gas markets firm similarly, then roughly $330 million in program expenditure reductions and/or new revenue measures would be required. If oil and gas markets were to be stronger than assumed, a commensurately smaller fiscal policy adjustment would be required to meet the combined deficit target.

Combined Annual Deficit
(millions of dollars)

CHART E9

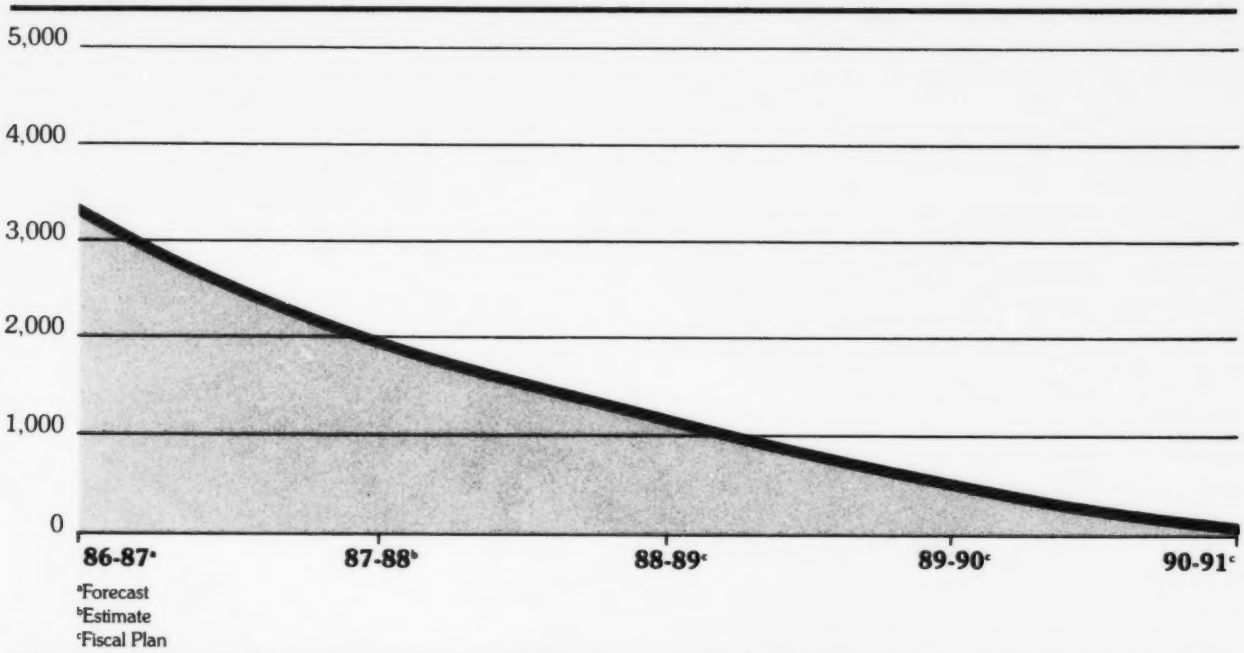


Table E1 sets out the government's medium-term fiscal plan using these guideposts. Because such a plan must make assumptions about economic performance and external factors, it will be reviewed annually and is, therefore, subject to change.

Medium-Term Fiscal Plan
(millions of dollars)

TABLE E1

	1988-89	1989-90	1990-91
Combined deficit target	1,100	500	0
Debt servicing costs	660	750	780
Required program expenditure reduction and/or new revenue measures[a]	330	140	0

[a] Dollars required to meet combined deficit target if oil price increases only with inflation and gas markets firm similarly. Assumes no change in federal tax policy or in federal-provincial fiscal arrangements.

Appendix F

Details of Tax, Fee and Premium Changes

Tables

F1 Alberta Personal Income Tax, Marginal and Average Rates, 1987 83
F2 Alberta Personal Income Tax, Illustrative Increases, 1987 84
F3 Health Care Premiums and Subsidy 86
F4 Revenue Increases from Tax, Fee and Premium Changes, 1987-88 87
F5 Major Provincial Tax Rates 88

Details of Tax, Fee and Premium Changes

Personal Income Tax

Basic Tax Rate

The basic Alberta tax rate is to be increased for the 1987 and subsequent taxation years from 43.5% to 46.5% of basic federal tax, still the lowest provincial basic tax rate.

Temporary High Income Surtax

A surtax of 8% of basic Alberta tax payable in excess of $3,500 will be implemented beginning with the 1987 taxation year. The tax will apply to those with taxable income in excess of $36,000 (which is roughly equivalent to a gross income of $42,000 for an individual and $47,000 for a one income earner family of four including two young children).

Temporary Flat Rate Tax

Also beginning with the 1987 taxation year, a temporary flat rate income tax of 1% of Alberta taxable income will be payable. (The tax payable as a result of this tax will not affect the calculation of the surtax.)

Selective Tax Reduction

The Selective Tax Reduction is to be enriched in 1987 to reduce the provincial tax otherwise payable by 480,000 low income earners. The reduction will be the lesser of provincial tax payable and $450 (up from $340) minus one-half of provincial tax payable.

Approximately 235,000 persons with taxable income of less than $4,200 who would otherwise be taxpayers will pay no tax because of this program. These persons typically would earn a total employment income of up to $9,300 if a single taxpayer or $14,200 if the person has a spouse and two dependents with no income. About another 245,000 taxpayers with taxable income of less than $10,500 (typically total employment income of up to $15,800 for a single taxpayer and $20,800 for the four member family) will have their tax reduced from what it otherwise would be by this program. The cost of this program is estimated to be $72 million, an increase of 44% over 1986-87 costs.

Alberta Personal Income Tax TABLE F1
Marginal and Average Rates, 1987

Taxable Income $	Marginal Rates		Average Rates*	
	Current Rate %	Proposed Rate %	Current Rate %	Proposed Rate %
1,320 or less	2.61	3.79	0.00	0.00
1,321 - 2,639	6.96	8.44	0.00	0.00
2,640 - 5,279	7.40	8.91	0.00	0.00
5,280 - 7,918	7.83	9.37	4.50	5.00
7,919 - 13,197	8.27	9.84	7.07	8.56
13,198 - 18,476	8.70	10.30	7.54	9.06
18,477 - 23,755	10.01	11.70	7.99	9.54
23,756 - 35,914	10.88	12.63	8.76	10.36
35,915 - 36,952	10.88	13.56	9.14	10.79
36,953 - 63,347	13.05	16.07	10.19	12.20
63,348 and over	14.79	18.07	11.41	13.80

* Calculated at midpoint of income range; for the last income class it was calculated at $75,000. The Selective Tax Reduction eliminates provincial tax otherwise payable for taxpayers with taxable income of less than $4,200 and reduces it for taxpayers with taxable income between $4,200 and $10,500.

Source Deductions

For the vast majority of taxpayers, income tax is withheld by their employer who forwards it to Revenue Canada. The tax collection agreement between Canada and Alberta requires that provincial tax increases be effective for a full taxation (calendar) year. However, the agreement allows a rate increase to be implemented by doubling the increase in tax withheld by employers beginning July 1 for the last half of the year. The basic income tax increase, the temporary surtax and temporary flat rate tax will be effective January 1, 1987, but collections will commence July 1, 1987 by doubling the increase in withholdings from payments at source for the last 6 months of this taxation year.

Alberta Personal Income Tax
Illustrative Increases, 1987

TABLE F2

Total Income $	Single Taxpayer			Family of Four		
	Current Alberta Tax $	Alberta Tax After Tax Changes $	Change In Alberta Tax $	Current Alberta Tax $	Alberta Tax After Tax Changes $	Change In Alberta Tax $
5,000	0	0	0	0	0	0
7,500	0	0	0	0	0	0
10,000	44	26	−18	0	0	0
12,500	292	324	32	0	0	0
15,000	553	636	83	0	0	0
20,000	959	1,157	198	510	586	76
30,000	1,744	2,083	339	1,287	1,547	260
40,000	2,683	3,177	494	2,167	2,578	411
50,000	3,596	4,268	672	3,023	3,580	557
75,000	6,244	7,539	1,295	5,625	6,776	1,151
100,000	8,788	10,678	1,890	8,087	9,822	1,735

Note: Provincial tax net of the Selective Tax Reduction for low income taxpayers.

Renter Assistance Tax Credit

The Alberta Renter Assistance Tax Credit assisted renters over the past twelve years of low vacancy rates and high rents. This program is no longer a priority as current high vacancy rates and a soft rental market have substantially reduced the need for it. The credit will, therefore, be terminated as of January 1, 1987. Renters will continue to benefit from the Property Tax Reduction Program which pays a major part of the education portion of the property tax. Landlords can maintain lower rents than they would be able to in the absence of this program.

The termination of this program will provide about $90 million of additional personal income tax revenue in fiscal year 1988-89. Fiscal 1987-88 revenue will not be affected since the credit for 1986 will be deducted from taxes remitted by Revenue Canada to Alberta in 1987-88.

Eligible renters can still claim the Renter Assistance Tax Credit on rent paid in 1986 by filing a claim with their tax return before the end of 1987.

The Senior Citizens Renter Assistance Grant will be unaffected by the change. A grant of up to $1,200 is available for this year.

Corporate Income Tax

The general corporate income tax rate will increase by more than one-third to 15% effective April 1, 1987. The tax rate on Alberta manufacturing and processing income of large corporations will almost double to 9% from 5%. Canadian controlled private corporations will continue to benefit from the small business deduction resulting in a tax rate of 5% on the first $200,000 of taxable income and 0% if that income is from manufacturing and processing activity. Corporations with taxation years overlapping April 1, 1987 will be required to prorate the tax increase according to the portion of their tax year following that date.

Insurance Corporations Tax

The tax on insurance corporations' premiums from policies other than for life, sickness and accident insurance will increase by 50% April 1, 1987 from 2% to 3%. The tax on life, sickness and accident insurance premiums will remain at 2%.

Fuel Tax

A tax of 5¢ per litre on gasoline and diesel fuel used in a motor vehicle will be implemented on June 1, 1987. Propane, methanol, ethanol and natural gas will not be subject to tax.

The Farm Fuel Distribution Allowance will be extended at 14¢ per litre until June 1, 1987. After that, farmers will be exempt from the fuel tax and will receive a 9¢ per litre Alberta Farm Fuel Distribution Allowance thereby maintaining the current 14¢ per litre cost advantage enjoyed by farmers.

Fuel used off-road in commercial vehicles will be exempt from the tax or eligible for a tax rebate.

A tax of 5¢ per litre will be levied as of June 1, 1987 on fuel used in all aircraft. Currently the tax is confined to fuel used in large aircraft and is levied at a rate of 0.7¢ per litre.

The tax on fuel used in railway locomotives will increase from 0.7¢ per litre to 5¢ per litre effective June 1, 1987.

A typical motorist using a vehicle for pleasure and driving to work will pay about $60 in Alberta fuel tax in 1987.

Hotel Room Tax

A tax of 5% of the price of lodging occupied for less than one month will be implemented June 1, 1987. The tax will be collected by the vendor of the accommodation, typically hotel and motel operators.

Lodging supplied by charitable organizations, hospitals or nursing homes and establishments with less than four rooms as well as rented sites in camp and trailer parks will be exempt from the tax.

Tobacco Tax

The tax on cigarettes will be increased to 4¢ from 1.48¢ per cigarette and to 1.5¢ from 0.64¢ per gram of loose tobacco. The increase will apply to cigarettes delivered to retailers after midnight the day of the budget. The Alberta tax on a package of 25 cigarettes will be $1.00.

The new level of tax on cigars is as follows.

Price Range Pre-tax	Tax
¢ per Cigar	
0-20	10
21-40	20
41-60	30
61-100	50
101-150	75
over 150	100

Alberta Liquor Control Board Trading Profits

The Alberta Liquor Control Board has been instructed to increase mark-ups so as to provide $40 million in excess of the trading profit they would otherwise have provided in the fiscal year 1987-88.

Motor Vehicle Registration and Operators' Licences

Vehicle registration fees will be increased May 1, 1987. The fee for registering a passenger vehicle will increase from $31 to $41 per year. Commercial truck registration fees will increase by between $10 and $102 per year. They will now range from $56 to $2,100 per year depending on the weight of the vehicle. The fee for registering farm trucks under 2,500 kg. will increase from $31 to $41 and for trucks over 2,500 kg. from $46 to $61 per year. Other vehicle registration fees will increase accordingly. Operators' licence fees will increase for those renewing after April 30, 1987 to $30 per 5 years.

Fees and Charges

The government has confirmed its policy for fees and charges. The policy directs departments to examine the goods and services which they provide to determine if they could be delivered more effectively and efficiently by the private sector and, where the good or service is appropriately delivered by the government, to move the related fees and charges toward full cost recovery. Exceptions are to be justified. In light of the fiscal situation, minimum fee increases have been established this year so that in most cases the cost of delivering publicly provided goods (e.g., maps, government publications) or services (e.g., corporate registration, construction inspection) will soon be paid for by those who use them. Efforts to privatize will continue.

Health Care Insurance Premiums

The revenue from premiums is deposited in the Health Care Insurance Fund. Because of rapid increases in basic health care costs, health care insurance premium revenue has declined from covering about 55% of non-seniors basic health care services in 1971-72 to only about 35% in 1987-88. As a result, premiums will be adjusted July 1, 1987 from $14 to $18 per month for a single person and from $28 to $36 per month for a family. Premium revenue will cover about 40% of the cost of basic health care services, exclusive of costs for seniors, in 1987-88.

Low income earners will not bear any of the premium increase. The health care insurance premiums subsidy will be enriched at a cost of $2 million, as shown in Table F3.

Health Care Premiums and Subsidy **TABLE F3**
(dollars)

Prior Year's Taxable Income	Subsidy Per Month	Net Premium Per Month
single		
0-3,500	18	0
3,501- 4,500	12	6
4,501- 5,500	6	12
5,501 and higher	0	18
family		
0- 6,000	36	0
6,001- 8,000	24	12
8,001-10,000	12	24
10,001 and higher	0	36

Summary

Table F4 summarizes the revenue policy changes announced in the budget. In total, these changes reduce the deficit by $992 million.

Nonetheless, the tax environment remains very favorable to those who live and do business in Alberta. Table F5 compares the major tax rates in each of the provinces as known on March 2, 1987. Alberta rates are the lowest or among the lowest in each of the categories. Moreover, Alberta does not levy a sales tax, a capital tax or a payroll tax.

Revenue Increases From Tax, Fee and Premium Changes, 1987-88

TABLE F4

	Current	New Rate	Effective Date	Additional Revenue ($ Millions)
Personal Income tax			January 1, 1987	
General rate	43.5%	46.5%		
Flat rate tax	—	1%		376
High income surtax	—	8%		
Corporate Income Tax			April 1, 1987	
Large corporations	11%	15%		117
Large corporations manufacturing and processing	5%	9%		
Insurance Corporations Tax – other than life, sickness and accident insurance	2%	3%	April 1, 1987	10
Fuel Tax			June 1, 1987	
General	—	5¢/litre		
Aviation	0.7¢/litre	5¢/litre		230
Railway	0.7¢/litre	5¢/litre		
Hotel Room Tax	0	5%	June 1, 1987	9
Tobacco Tax	1.48¢/ cigarette	4¢/ cigarette	March 21, 1987	115
ALCB Trading Profits				40
Motor Vehicle Registration	$31/ passenger vehicle	$41/ passenger vehicle	May 1, 1987	16
Operators' Licences	$10/ 5 years	$30/ 5 years	May 1, 1987	5
Fees and Charges				30
Incremental Budgetary Revenue				**948**
Health Care Insurance Premiums			July 1, 1987	
Single	$14/month	$18/month		44
Family	$28/month	$36/month		
Total Incremental Revenue				**992**

Major Provincial Tax Rates[a]

TABLE F5

	Personal Income Tax			Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Care Premiums		Corporate Income Tax		Capital Tax	Payroll Tax	Insurance Premiums Tax[d]
	Basic Rate	High Income Surtax	Flat Rate Tax				Individual	Family	Small Business Rate[b]	General Rate[c]			
	(%)	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($)	($)	(%)	(%)	(%)	(%)	(%)
British Columbia	47.5	10.0	—	7	6.4	.97	216	456	8	15	0.2	—	2/3
Alberta	46.5	8.0	1.0	—	5.0	1.00	216	432	0/5	9/15	—	—	2/3
Saskatchewan	50.0	12.0	1.0	5	—	1.02	—	—	0/10	17	0.5	—	2/3
Manitoba	54.0	20.0	—	6	8.9	1.03	—	—	10	17	0.3	1.50	2/3
Ontario	50.0	3.0	—	7	8.30	.71	357	714	0/10	14.5/15.5	0.3	—	2/3
Quebec	70-85	—	—	9	13.6	1.13	—	—	0/3.22	5.9/13.9	0.48	3.22	2/3
New Brunswick	58.0	—	—	11	7.7	1.03	—	—	5/9	15	—	—	2/3
Prince Edward Island	55.0	—	—	10	9.0	.88	—	—	10	15	—	—	2
Nova Scotia	56.5	—	—	10	8.9	.88	—	—	0/10	15	0	—	2/3
Newfoundland	60.0	—	—	12	9.8	1.19	—	—	10	16	0	—	3

[a] 1987 rates as known March 2, 1987.

[b] The 0% rate applies to new start-up small businesses except in Alberta where it applies to manufacturing and processing income. Saskatchewan's 0% rate applies to both. New Brunswick's 5% rate applies to small businesses with income of $100,000 or less.

[c] In Alberta, the lower rate applies to manufacturing and processing income. In Ontario, the lower rate extends to all primary industries. In Quebec, the lower rate applies to all active business income.

[d] The lower rate applies to premiums for life, sickness and accident insurance.